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1997-2004

A Budget Correction

*Boston's Financial
Picture*

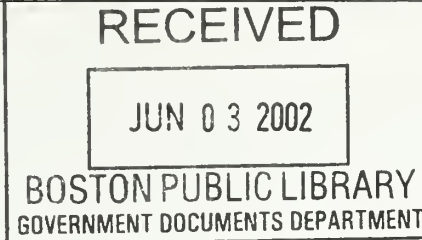
Including:

- *Four Year Revenues & Spending*
- *Major Cost Areas*
- *Policy Decisions That Impact Spending*
- *General Fund & Capital & Grant Spending*
- *Boston's Future: Structural Gap & Solutions*

May 2002

Research Bureau

Executive Summary



Faced with the prospect of a 10% cut in local aid and a slower increase in new property growth, Mayor Menino has submitted to the City Council a recommended fiscal 2003 budget of \$1.784 billion, an increase of only \$12.6 million or 0.7%. After expressing concern about a structural gap over \$50 million, the Administration was able to present a balanced budget by tightening spending, reducing its overlay reserve and using a limited amount of its reserves. Many department heads were able to meet their budget targets, in part, by eliminating a total of over 200 budgeted but unfilled positions. The impact of this budget should be that the public will not experience any real change in basic services and only the School Department will face limited layoffs. Salary increases from new contract negotiations are not anticipated in this budget. The “belt tightening” process was not completely painless, nor was it extremely difficult. This budget does not presume any new taxes or new fees. In this context, the budget presented, on the whole, is responsible and the assumptions seem reasonable.

The current financial situation, actually, forced a “correction” after years of steady spending growth, a need for the City to re-evaluate existing operational practices and to institute creative management improvements. A review of the City’s financial performance over the past four years will help provide the context in which to evaluate current actions. The Commonwealth is expected to face fiscal pressures for a period of 2-3 years, which means that Boston should plan now for spending reductions in non essential services over this period. The City should place its emphasis first on cutting costs and improving basic service delivery before considering new revenue sources unless equity is at issue. While this report addresses the “all funds” operation of the City by considering General Fund, grant and capital spending, the analysis will focus primarily on changes in the General Fund financial performance.

Four-Year Financial Performance

The need to tighten spending in the fiscal 2003 budget comes after nine years of continual growth in city operations. During that period, the City posted a General Fund operating surplus each year ranging from \$1.5 million to \$10.3 million. In fiscal 2001, Boston’s Undesignated Fund Balance (reserve) was \$182.0 million, which represented 11.3% of total operating expenditures. In the past four years, General Fund revenues increased by \$348.6 million or 25% from fiscal 1997 through fiscal 2001. Operational spending increased by \$342.7 million or 25% during this time while inflation grew by 13%. In fiscal 2002, city operational spending is budgeted at \$1.772 billion, an increase of \$50.4 million or 3% over fiscal 2001. Over this time, spending grew to meet the level allowed by existing revenues with limited effort made to budget less than the amount of anticipated revenues.

Spending For Employees

Employee costs represent the largest single area of city spending. Almost 70% of expected spending of \$1.772 billion in 2002 is targeted toward employees – including salaries, overtime and benefits. Spending for employees grew by \$267.9 million or 30% over the past four years with the cost for salaries and overtime increasing by an average annual increase of 7%. Cost of living increases coupled with step increases pushed the salary of a teacher up by 33% over three years. The fiscal 2002 budget for employees totals \$1.199 billion. The increase in the number of employees has been the primary driver of the growth in city spending since fiscal 1997. As of January 2002, city-funded full-time equivalent (FTE) employees totaled 17,571. In the five years from January 1997 to January 2002, city-funded employees have grown by 1,114. The BPS accounted for 998 positions or over 90% of the five-year increase in the City's work force.

Policy Decisions That Impact Spending

During this past period of strong economic growth, decisions have been made at the state and city level that expand or add to the base services the City provides. The Education Reform Act played a significant role in expanding school spending. Collective bargaining agreements contain decisions about salaries and benefits as well as decisions on policies or programs that require funding. Mayoral initiatives, such as the decision to make all schools Internet accessible in a short time affect spending. The City's acceptance of the Quinn Bill is a good example of a costly spending initiative approved without sufficient evaluation of its impact. Capital budget decisions affect related operational expenses as well as debt service costs.

Capital Budget

By any measure, Boston's net actual capital spending exploded in the five years since fiscal 1995, from \$64.3 million in fiscal 1995 to \$132.3 million in fiscal 2000, an increase of \$68.0 million or 106%. Actual capital spending for school purposes accounted for much of the increase during the last four years as its share of total capital spending increased from 17% of net capital spending in fiscal 1997 to 38% in fiscal 2001. With the construction of three new schools, the current renovations to South Boston High School and the planned expansion of Burke High School, school projects will continue to drive Boston's capital spending over the next several years. The City has adhered to conservative debt management policies and starting in fiscal 2000 has taken positive steps to institute more fiscal control over the capital program. Annual General Obligation borrowing will decline from fiscal 2001 to fiscal 2003 from \$120 million to \$100 million to \$75 million respectively. Even so, Boston's debt service costs are expected to exceed a mainstay of the City's debt management policy and surpass 7% of operational expenditures for the next two years.

Grant Funds

City operations receive considerable support from external funds through state and federal grant programs in addition to the General Fund. In fiscal 2002, grant funds are budgeted at \$364.2 million and support 2,942 employees. In the four years from fiscal 1997 to fiscal 2001, grant revenues increased from \$258.4 million to \$356.7 million, a growth of \$98.2 million or

38%. Three departments receive almost 80% of the grants: School (33%), Suffolk County (25%) and Department of Neighborhood Development (20%). Grant funds for fiscal 2003 are expected to total \$367.5 million, an increase of 0.9 % over the current year.

Boston's Future

Coming out of the recession of the early 1990s, the City of Boston has managed to effectively put itself in a good financial position. Revenues available to the City have been able to support a high rate of sending and expansion of city services while building up reserves and expanding its capital program. As is evident now, this situation will need to be changed starting in fiscal 2003 and moving forward. The City must devote more emphasis on controlling spending and managing operations more effectively. The Bureau projects that if the City took no corrective action with expected local aid and other revenue cuts, it would face an operational gap in the range of \$40-\$60 million in fiscal 2003 and \$50-\$70 million in fiscal 2004. If the Administration had not taken the steps to control the spending plan in fiscal 2003, the operational gap would have occurred. Developing the plan is one step but the more important step is to effectively manage the plan during the year.

Recommendations

Boston must develop and carefully manage a multi-year fiscal strategy to insure the continuation of basic service delivery. To address the current financial situation, spending needs to be slowed and expectations need to be more realistic. More pressure is being exerted on the spending side as most collective bargaining contracts, including the four police agreements, expire on June 30, 2002 and will have to be addressed eventually. Planning for fiscal 2004 will be more difficult and with that in mind, the Bureau offers several suggestions for improving services and achieving cost savings.

- **Work Force Reductions** – The Menino Administration should continue to reduce city employee numbers through attrition and early retirement incentives since salaries and benefits represent almost 70% of spending.
- **Human Resource Management** – The City should strengthen and modernize its personnel management operation and develop a performance-based personnel system.
- **Competition In Service Delivery** – To improve service efficiency and control costs, competition with city employees and private vendors should be introduced in all areas of government.
- **School Contract Cleaning** – The School Committee should open the cleaning for the three new schools that will be opened in September 2003 to a competitive bidding process for school custodians and private contractors.
- **Develop Fire Action Plan** – The Administration should develop an action plan based on the recommendations of the 1995 and 2000 fire management reports and indicate

which recommendations it is prepared to implement to achieve cost-effective service improvements.

- **Managing Collective Bargaining** – The City should improve its implementation and management of existing collective bargaining contracts to insure that the provisions of the contracts that would improve the efficiency of city government are fully implemented.
- **Student Assignment Review** – The School Department should begin the discussion of new approaches to student assignment in Boston and the choices that must be made as it prepares for the opening of the three new schools in September 2003.
- **Quinn Bill** – The Massachusetts Board of Higher Education should finish its evaluation of the Quinn Bill through site visits and establish uniform high education standards for all colleges.
- **Departmental Operation Review** – A system to provide a comprehensive management study of the operations of at least one major line department of the City each year should be established by the Administration.
- **Regionalization** – Boston should continue to participate in the Metropolitan Mayors Coalition in efforts to develop collaborative strategies to provide efficiencies and cost savings.
- **Using Technology** – Boston should do more to utilize existing technology to improve the efficiency of service delivery and the productivity of its employees.
- **Improvement In Grant Management** – The City needs to establish a uniform method for accounting and tracking grant funds to maximize utilization.

Introduction

The purpose of this report is to provide an overview of the financial performance of the City of Boston over the past four years (fiscal 1997-fiscal 2001), analyze the current fiscal 2002 budget and fiscal 2003 proposed budget and project performance over three years (fiscal 2002-2004). The City of Boston has made several policy decisions over the last few years that will have significant financial implications for the City. In a period of annual revenue growth, less attention has been given to the financial implications of these decisions and business has proceeded as usual. Based on the findings of this analysis, the report will recommend changes in financial policy and management practices where appropriate. Specifically, this report:

- (1) Details spending in major budget categories and the changes in revenue sources over the last 4 years.
- (2) Outlines the major policy decisions and collective bargaining agreements that will have an impact on the City's financial position in the future.
- (3) Forecasts the spending consequences resulting from these decisions.
- (4) Makes recommendations to improve the cost efficiency and delivery of city services to help ensure continued favorable financial operations for the City.

The Structure of the Report

This report is based on three major areas of city operations: (1) General fund operations (2) grant spending and (3) capital spending. Each of these areas is important to the City and ultimately effect how resources are allocated in Boston. The management of each of these areas is intertwined and affects the financial stability of the City as a whole. These areas are discussed in detail in the pages that follow. This analysis will focus primarily on changes in the City's General Fund financial performance. This report covers actual finances for fiscal 1997 through fiscal 2001 and budget figures for fiscal 2002 and fiscal 2003. Additionally, we have included a projections section that reflects our analysis of where the City's finances will be in fiscal 2002 through fiscal 2004. Please note, on the spending side, school employee benefits have been netted out from the BPS General Fund numbers and put into a central account. This adjustment allows for a more accurate comparison with the School Department and other departments as well as a more complete number for employee benefits.

Financial Health Indicators

Determining the City's financial health requires an assessment of several financial indicators that will be undertaken in this report. Several standards are straightforward such as whether the City ends the year with an operating surplus or deficit or how its debt position compares with various debt standards. One measure that is an indicator of the City's overall financial position is its Fund Balance, especially its Undesignated Fund Balance. A second measure is the City's cash flow position.

Fund Balance

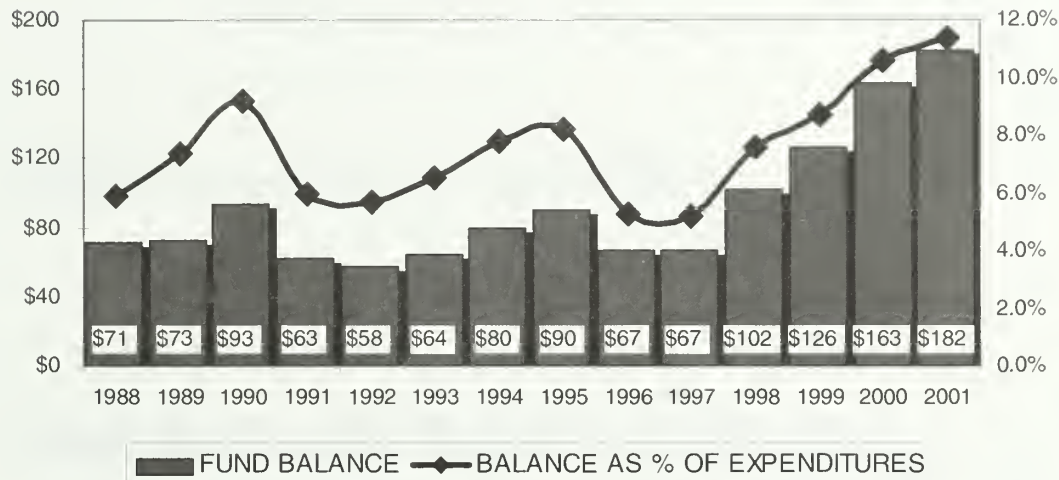
The Fund Balance is the City's cumulative net income following generally accepted accounting principles (GAAP). Since portions of the Fund Balance are designated for specific obligations such as encumbrances and debt service, the remaining portion, the Undesignated Fund Balance is used as an industry benchmark by rating agencies in the determination of the City's financial health. In general, maintaining an Undesignated Fund Balance between 8% and 10% of operating expenses is considered satisfactory. A healthy Fund Balance is important to the City because it provides an important cushion during times of economic uncertainty or when a large unanticipated expenditure occurs. With Proposition 2½ limits on the property tax and uncertainty with state aid during time of economic slowdown, a strong Fund Balance is necessary to give the City financial flexibility to properly manage its opportunities and ensure continued delivery of basic services. Finally, the bond rating agencies look favorably on Boston maintaining a strong Fund Balance.

In Massachusetts, because of different accounting requirements established by the Department of Revenue for cities and towns, a budgetary Fund Balance exists. Each method of accounting follows different rules and therefore produces different results. For example, for property taxes, the budgetary method fully recognizes the entire tax levy as revenue while the GAAP method recognizes only cash received as revenue. The GAAP standard is a national standard and will be the basis for the discussion of Fund Balance in this section.

Boston is in a good position regarding its current Undesignated Fund Balance but at this point in the economy, funds from any of the accounts that constitute the Undesignated Fund Balance should be used sparingly until all steps are taken to match available revenues with the City's most basic service needs. In fiscal 2001, Boston's Undesignated Fund Balance was \$182.0 million, which represented 11.3% of total operating expenses. With the current slowdown in the economy and the proposed decline in state aid growth, the City will need to maintain a healthy Fund Balance as part of its management strategy to help protect against cuts in basic service levels.

The City's Undesignated Fund Balance currently is at a healthy level as a percent of total operating expenditures, but it has a history of fluctuating over the years. The City relied on this Fund to help mitigate service cuts in the early 1990s when local aid was cut during the recession. In 1992, the Fund represented 5.7% of expenditures, down from a high of 9.2% in 1990. With the creation of the Boston Medical Center and the transfer of Boston City Hospital to BMC, the City's Undesignated Fund Balance dropped to 5.2% in 1997 (Appendix A).

UNDESIGNATED FUND BALANCE \$ IN MILLIONS



Cash Flow

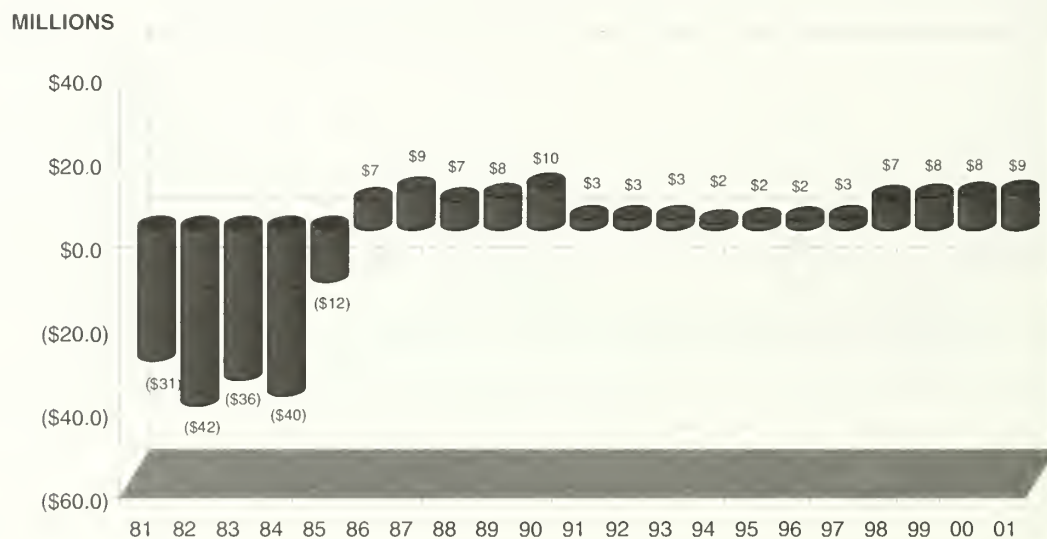
The cash flow of the City is also an important indicator when reviewing its past financial performance. Cash flow measures the ability of the City to fund day-to-day operations of the City without any type of borrowing. During the last few years, the City has enjoyed a healthy cash flow, as the City collects property taxes on a quarterly basis, capital budget management has improved and the cash balance has been strong resulting in a positive effect on investment income for the City. Appendix B contains the monthly cash balances of the City since fiscal 1997.

The General Fund

The City of Boston has posted a General Fund operating surplus in every year since fiscal 1986. These surpluses range anywhere from \$1.5 million to \$10.3 million, a relatively small portion of the City's operating expenditures. In fiscal 2002, revenues are budgeted to increase by 2% and spending by 3% over fiscal 2001. Over the years, spending has grown to

meet the level allowed by existing revenues with little effort made to budget less than the amount of anticipated revenues. The core of this spending has been allocated for employee costs, which absorb almost 70% of the budget in fiscal 2002 (not including Public Health Commission). Since fiscal 1997, the workforce has expanded by 1,026 full-time equivalent positions. Of this growth, 90% (926) occurred in the School Department. Over the last year from January 2001 to January 2002, the City has added 88 positions to the payroll.

GENERAL FUND SURPLUS/(DEFICIT) HISTORY

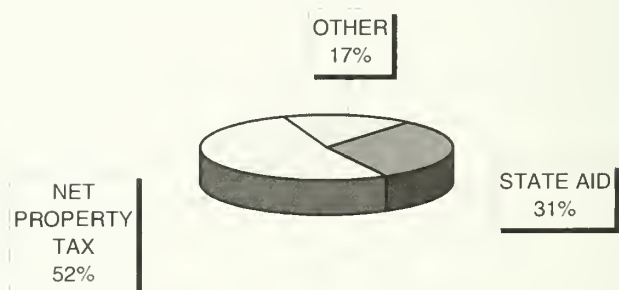


Additionally, the outcome of collective bargaining contracts had a significant influence on the City's General Fund finances. Cost of living increases coupled with step increases pushed employee salaries to record levels. A teacher in 1999, received in aggregate, a raise equivalent to 33% by 2002. Similarly, a librarian received the equivalent of a 25% jump in salary.

REVENUE TRENDS

The City's General Fund revenues are budgeted at \$1.772 billion in fiscal 2002, an increase of \$41.8 million or 2% since fiscal 2001. The net property tax totals \$925.9 million and state aid total \$550.5 million in fiscal 2002. General Fund revenues increased by \$348.6 million or 25% from fiscal 1997 through fiscal 2001. (Appendix C) The driving factors of this growth are the net property tax and state aid, which grew by

REVENUE DISTRIBUTION 2002



\$163.1 million and \$110.1 million respectively during this time.

Boston's reliance on the property tax and state aid is demonstrated by the fact that together they represent 83% of total General Fund revenues in 2002. These revenues sources have remained fairly stable in the portion they each represent of the total General Fund revenues since fiscal 1997.

These two revenue sources, despite being responsible for considerable growth in the City's budget, have inherent limitations. Proposition 2½ caps the property tax and the primary increases in state aid over the last five years have been earmarked for education with minimal growth in more discretionary, non-education aid. The remaining 17% of General Fund revenues come from small revenue sources such as parking fines, investment income and departmental receipts. These revenues, in aggregate, have experienced an aggressive growth pattern in past years, but still are not large enough to change the City's heavy reliance on state aid and the property tax.

STATE AID VS. PROPERTY TAX GROWTH OVER PRIOR YEAR

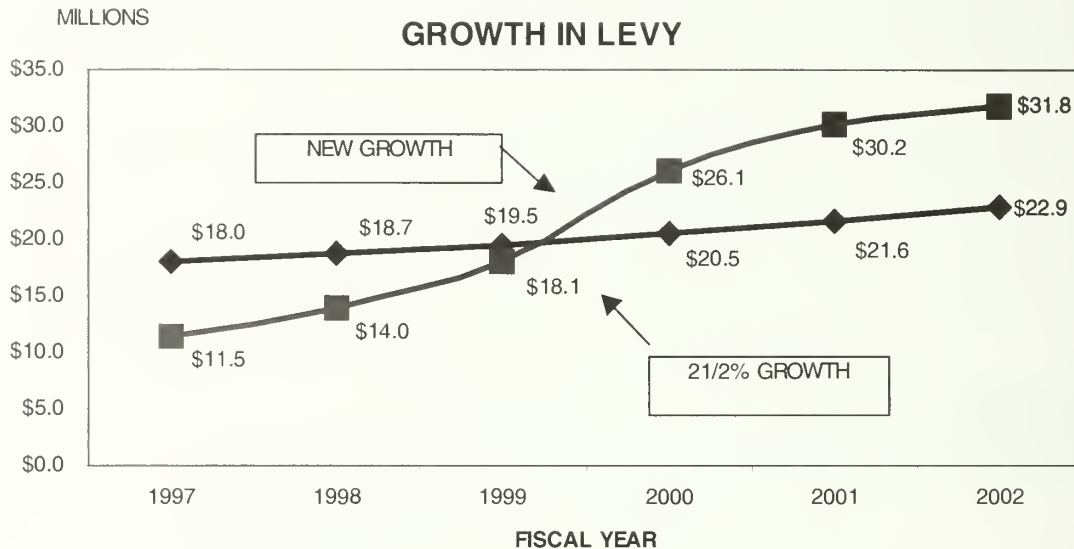


Property Tax

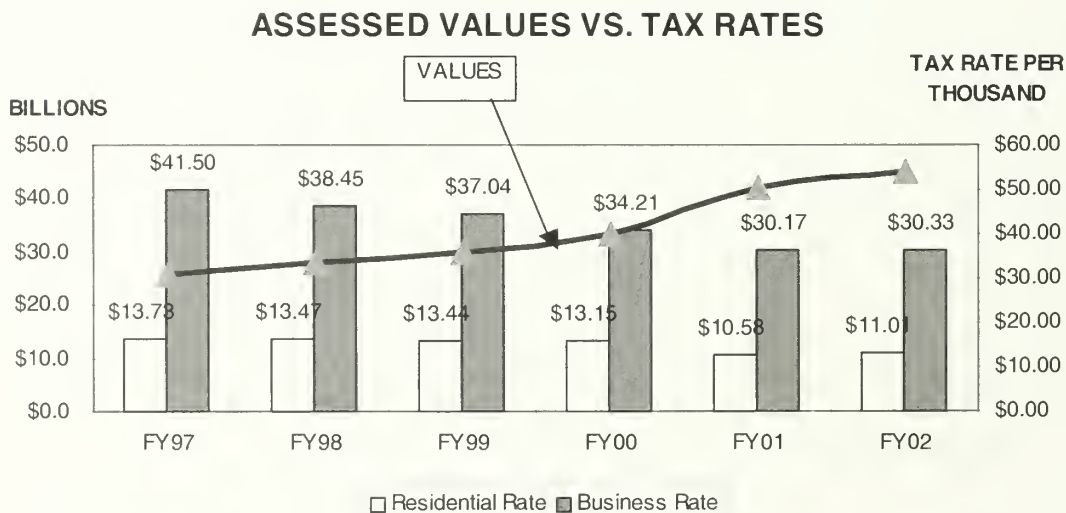
The property tax is Boston's major revenue source, accounting for 52% of total revenues in fiscal 2002. In fiscal 2002, the property tax is budgeted at \$925.9 million (net of the overlay reserve), an increase of \$51.9 million or 6% over the prior year. In the four years from fiscal 1997 to fiscal 2001, the property tax has grown by \$163.1 million or 23%. During this time, the property tax has grown at an average annual rate of 5%, increasing anywhere from \$20.9 million to \$49.0 million in a given year.

The significant growth in the property tax is a product of the expansion economy in this region. Beginning in fiscal 1997, new growth began escalating at significant rates, reflecting the impact of the strong economy. Since fiscal 1997, new growth has been responsible for over 40% of the increase in the property tax levy in each year. Up until fiscal 2000, the 2½% levy growth

increase accounted for the majority of the levy increase each year. In fiscal 2000, new growth actually outpaced the 2½% levy growth, representing 56% of the increase while the 2½% increase represented 44%. In fiscal 2002, this same trend continues with new growth representing 58% of the increase and the 2½% increase representing 42%.



Boston has clearly benefited from the positive real estate market since 1997, with assessed property values growing by \$19.5 billion or 63%, for an average annual increase of 13%. Residential property values have grown by 59% during this time and business property values by 69%. As property values increased, the business tax rate dropped by 27% and the residential tax rates declined by 23% so that the tax levy would not exceed the annual 2.5% increase limit. In fiscal 2002, the business tax rate is \$30.33 per thousand dollars of value and the residential tax rate is \$11.01.



**PROPOSITION 2½
WHAT IS IT & HOW DOES IT WORK?**

Proposition 2½ places constraints on the total amount of the levy the City can raise from real and personal property as well as how much it can be increased from year to year. These limitations are established through a LEVY CEILING and a LEVY LIMIT.

The levy ceiling is the primary limitation of Proposition 2½, which states that the property tax levy cannot exceed 2.5% of the total full and fair cash valuation of all taxable real and personal property. The assessed values of property approximates full and fair cash valuation since Massachusetts law requires municipalities to assess at 100% of fair cash value.

The levy limit prohibits the property tax levy from exceeding the previous year's levy limit by more than 2.5%, with increases allowed for additions to the tax base through new construction (new growth) or major renovations. The levy limit must be below the levy ceiling. The City is not able to capture property value growth in excess of 2.5% but must reduce its tax rate to ensure the prior year levy does not exceed the 2.5% increase.

The annual changes in assessed values and tax rates combine to ensure that each year the tax levy increase does not exceed 2.5%. In years of strong property value appreciation, the tax rates will be reduced and in years of more moderate value growth or reductions that tax rates will be increased to meet the 2.5% levy limit. Thus in a time of robust economic growth, the City is not able to capture the full extent of the value increase in the tax levy. Even when the taxable assessed values decrease, the City is able to increase its annual tax levy by 2.5% as long as the levy limit is below the levy ceiling.

State Aid

State aid, the City's second largest revenue source is budgeted at \$550.5 million in fiscal 2002, an increase of \$25.3 million or 0.5% over fiscal 2001. (These figures reflect funds applied on a budgetary basis) From fiscal 1997 to fiscal 2001, state aid has grown by \$110.1 million or 27%, for an average annual increase of 6%. State aid as a percent of total General Fund revenues has remained fairly static, generally accounting for around 30% of revenues.

The growth in state aid is due primarily to the state's commitment to increase education funding as part of the Education Reform Act and the five-year phase-out of the cap on lottery distributions. Since fiscal 1997, Chapter 70 school aid accounted for a majority of the state aid increase to Boston. Funds from Lottery receipts and school

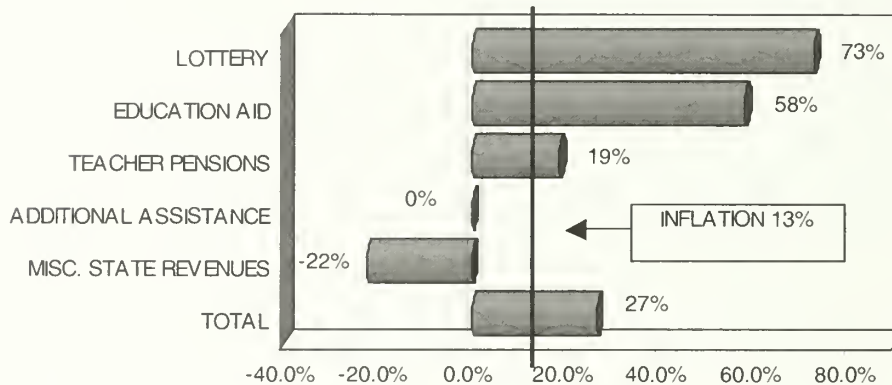
STATE REVENUES FOR BOSTON FY2001

	2001	% DISTRIBUTION
ADDITIONAL ASSISTANCE	206,638,214	39.3%
EDUCATION AID	203,340,151	38.7%
LOTTERY	70,978,173	13.5%
TEACHER PENSIONS	41,392,675	7.9%
MISC. STATE REVENUES	2,819,238	0.5%
TOTAL STATE REVENUES	\$525,168,451	100.0%

construction also contributed to the increase in state aid to Boston. Future state aid

distributions are uncertain at this time. More on this issue can be found in the projection section of this report.

STATE AID GROWTH 1997-2001

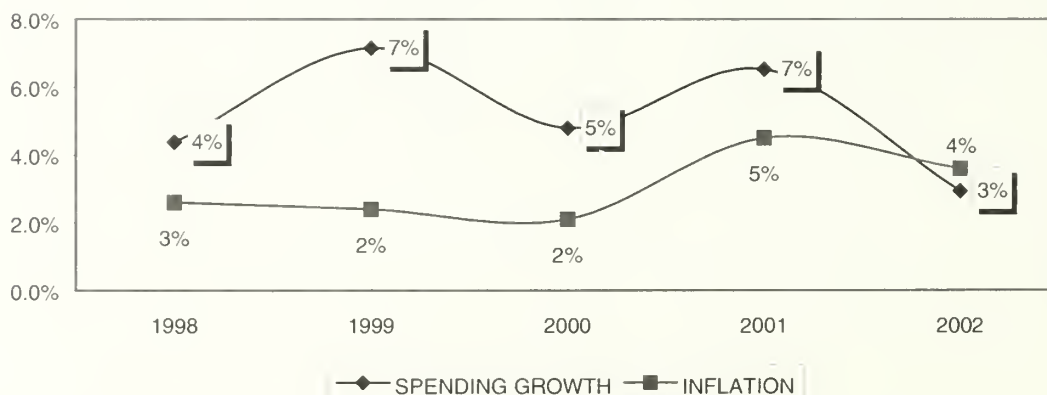


SPENDING TRENDS

Boston's General Fund expenditures continue to be driven by the City's available revenues. Spending has grown to meet the level allowed by existing revenues, with little effort made to budget less than the amount of anticipated revenues. That has produced spending that has increased by \$342.7 million or 25% in the four years from fiscal 1997 to fiscal 2001 compared to inflation that has grown by 13% during this same time. (Appendix C) Boston's favorable revenue growth has enabled the City to enhance or add programs and services and considerably increase the number of city employees, their salaries and benefits over the past four years. In fiscal 2002, city operational spending is budgeted at \$1.772 billion, an increase of \$50.4 million or 3% over fiscal 2001.

Spending has grown with little effort made to budget less than... anticipated revenues

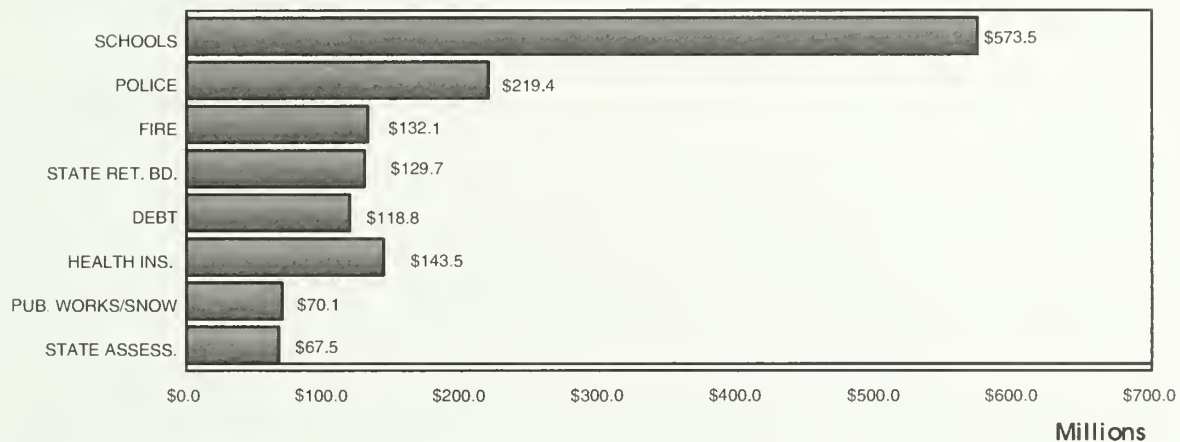
SPENDING GROWTH VS. INFLATION



Where Is The Money Spent?

The City's General Fund expenditures are budgeted at \$1.772 billion in fiscal 2002. Eight budget accounts dominate the City's operating budget out of a total of 65 separate departmental, agency and service accounts. These eight accounts represent 82% of the total budget or total \$1.455 billion. The graph below highlights the spending in these top eight accounts for fiscal 2002.

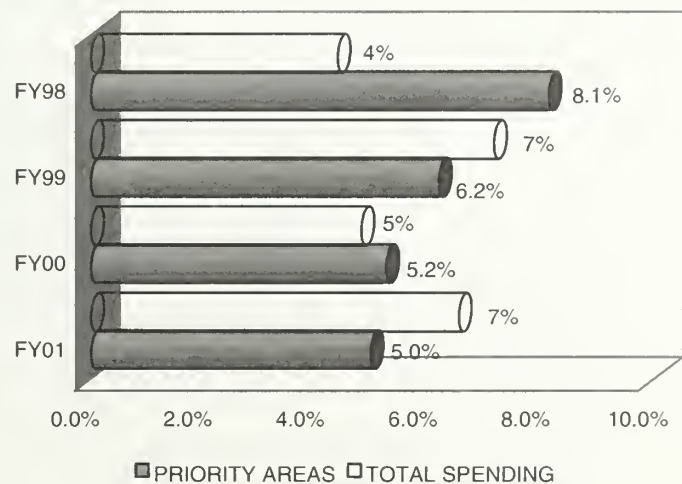
FY02 APPROPRIATIONS OF TOP ACCOUNTS



The Mayor's priority areas of schools (\$573.5M not including benefits), police (\$219.9M) and fire (\$132.1M), are expected to absorb 52% of spending in fiscal 2002 for a total of \$925.5 million. These priority areas (schools, police & fire) have collectively grown by \$188.0 million or 27% from fiscal 1997 to fiscal 2001 and have absorbed almost 55% of the total increase in City spending during this time. Schools absorbed the majority of the increase (36%), growing by \$123.6 million or 29% (not including benefits). Police absorbed 14% of the increase, growing by \$46.6 million or 28%. Fire absorbed 5% of the increase, growing by \$17.8 million or 18%.

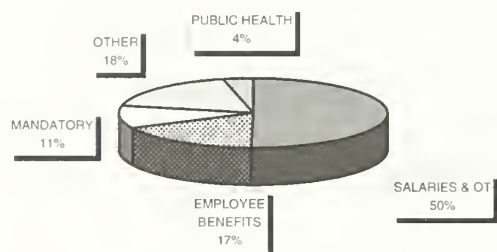
Employee costs represent the largest single area of city spending. In fiscal 2002, spending for salaries and benefits are expected to total \$1.199 billion, an increase of 3% since fiscal 2001. Spending for employees grew by \$267.9 million or

PRIORITY AREAS VS. TOTAL SPENDING GROWTH OVER PRIOR YEAR

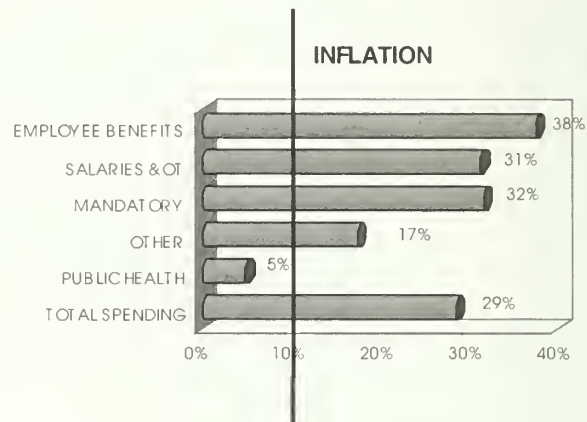


30% in the four years from fiscal 1997 to fiscal 2001. During this same time, the City experienced a \$31.5 million or 22% increase in mandatory spending (debt & state assessments).

WHERE THE MONEY GOES



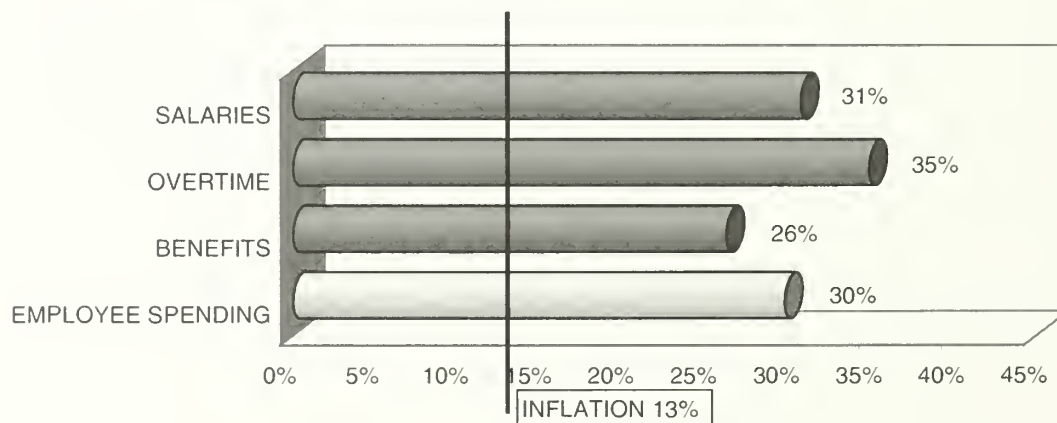
SPENDING AREA GROWTH VS INFLATION FY97- 02



Spending For Employees

Almost 70% of expected spending of \$1.772 billion in 2002, is targeted toward employees – including salaries, overtime and benefits. The fiscal 2002 budget for employees totals \$1.199 billion, of which salaries and overtime total \$889.9 million or 50% of total and benefits total \$309.3 million or 18%. Spending for employees grew by \$267.9 million or 30% from fiscal 1997 to fiscal 2001. Salaries and overtime during this time have grown by \$209.1 million or 31%, for an average annual increase 7%. Employee benefits have increased by \$58.8 million or 26% for an average annual increase of 6%. (Appendix D)

**% GROWTH IN SPENDING FOR EMPLOYEES FISCAL
1997-2001**



Salaries

Salaries alone, are budgeted at \$851.9 million in fiscal 2002, 71% of total spending for employees. From fiscal 1997 to fiscal 2001, salaries increased by \$197.7 million or 31%. This spending growth is a consequence of salary and step increases approved in collective bargaining agreements and the large increase in employee levels. Salaries for school employees were a major growth area, increasing by \$98.8 million or 31% in the four years since fiscal 1997, for a total of \$419.8 million in fiscal 2001. The average annual increase in school salaries was 7% over the past four years. Police followed, growing by \$41.1 million or 28% during this time for a total of \$187.5 million. Fire Department salaries have increased by \$13.9 million or 15% for a total of \$105.6 million in fiscal 2001. Transportation salaries grew by \$4.3 million or 34%, Public Works \$4.1 million or 29% and Library salaries up by \$3.2 million or 18%. All other city departmental salaries have collectively grown by \$43.7 million or 59% during this time.

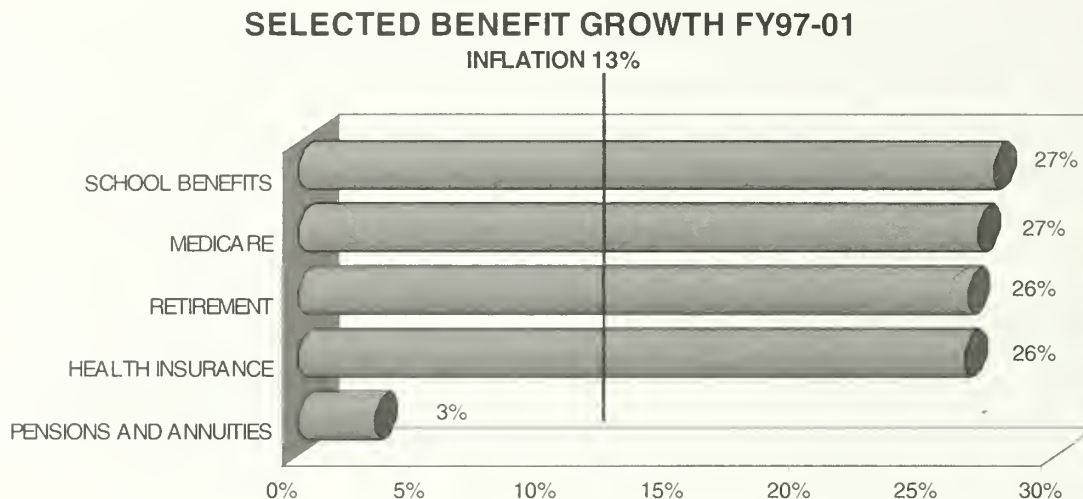
Overtime

Overtime has increased at a significant rate in several city departments even with the substantial expansion of employees. In fiscal 2002, overtime is budgeted at \$38.2 million, 3% of total spending for employees. Overtime has grown by 35% or \$11.3 million from fiscal 1997 to fiscal 2001, for a total of \$43.8 million. Two departments – Police and Fire – are primarily responsible for this growth, increasing by \$3.8 million and \$3.4 million respectively over this time. As expected, the Departments of Police (\$21.7 million), Fire (\$9.5 million) and Schools (\$4.6 million) account for the largest amounts spent for overtime in fiscal 2001. While not representing large dollar amounts, 10 departments have more than doubled their overtime spending from fiscal 1997 to fiscal 2001 despite the growth in employee levels.

Employee Benefits

Driven by the increase in city employees, higher salaries and escalating health care costs, spending for employee benefits has become a key contributor to increased city spending. Employee benefits total \$309.3 million in 2002 (including BPS), representing 26% of total employee spending. Benefits include health insurance, pensions, school benefits and other miscellaneous accounts. In fiscal 2002, the city budget for employee benefits represents an increase of \$25.7 million or 9% over the prior year. Health insurance (\$100.7 million) and school benefits (\$66.3 million) are expected to absorb the lion's share of this increase, growing by \$24.0 million collectively. Pensions are budgeted at \$129.8 million, an increase of \$2.3 million or 2% over the prior year.

In the four years from fiscal 1997 to fiscal 2001, spending for employee benefits has grown by \$58.8 million or 26%, an average annual increase of 6%. During this time, the cost for pensions escalated by \$27.7 million or 28%. While Health Insurance grew by \$17.8 million or 26%. Health Insurance costs are reflective of the changes experienced in the health care industry and are the same growth patterns that are experienced by private businesses. In addition to the significant salary increase during this time, benefits for school employees have grown by \$12.7 million or 30% since fiscal 1997.



Employee Growth

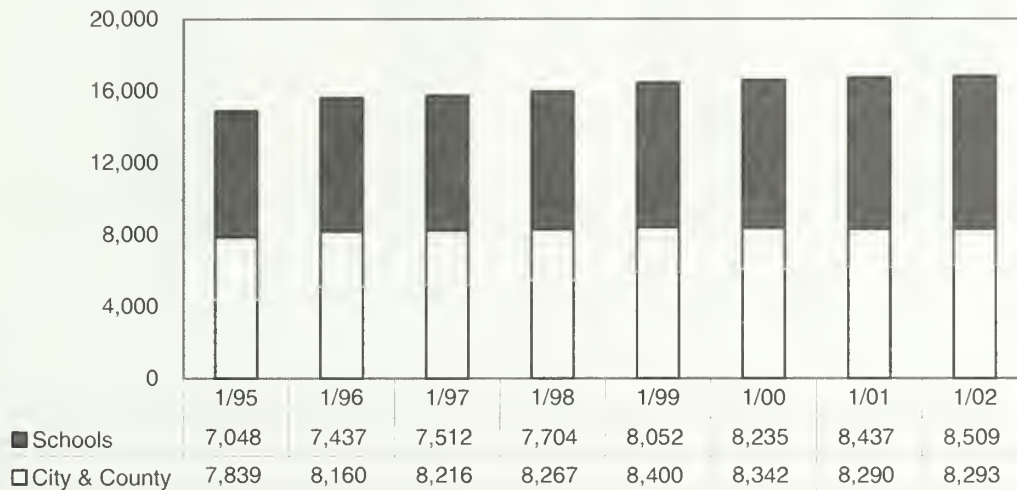
The increase in the number of employees has been the primary driver of the growth in city spending since fiscal 1997. As of January 2002, city-funded full-time equivalent (FTE) employees totaled 17,571, a growth of 88 positions over 2001. In the five years from January 1997 to January 2002, city-funded employees have grown by 1,114. The BPS accounted for 998 positions or over 90% of the five-year increase in city employees. Other areas of growth include Property Management (+61), Transportation (+56), Inspectional Services (+30) and Library (+46). The peak years for employee expansion since 1997 were: 1998 with an increase of 243 and 1999 with a growth of 496 FTE's. A key factor in the expansion of the City's base spending is the addition of 1,841 employees from January 1995 to January 2001 (not including DHH & PHC). Almost 1,400 of this increase went to schools, 300 to police and almost 100 for community centers, reflecting mayoral priorities. (Appendix E)

The BPS city-funded workforce totals 8,509 as of January 2002, an increase of 78 over January 2001. The school workforce has increased by 920 from January 1997 to January 2001 while enrollment grew by only 22 students. Teachers accounted for 48% of this growth, adding 442 positions. Contractual changes to reduce class size and the increase in Planning & Development periods contributed to the teacher increase. The remaining 478 non-teaching positions were added to instructional support (+209), non-academic support (+105), maintenance (+63), professional support (+53) and administration (+21). From January 1995 to January 2001, almost 1,400 positions were added to the school workforce.

In a period of strong economic growth that produced increased city revenues and state aid, the City expanded services, adopted new initiatives and negotiated generous collective bargaining contracts that resulted in a significant increase in employee levels. In some cases, efforts to provide more cost-efficient services required the hiring of additional employees. Backed by additional state funds to support the Education Reform Act, the BPS negotiated employee

contracts and adopted programs to meet higher teaching and learning standards, reduce class size and expand support programs.

PERSONNEL LEVELS (FTE) 95-02



NOT INCLUDING HOSPITAL OR PHC

Employees funded by grants total 2,942 FTE's as of January 2002, a growth of 166 over 2001. Grant funded employees represent 14% of total employees. Since January 1997 to January 2002, grant-funded employees have grown by 1,570. City and county departments absorbed the bulk of this increase. Since 1995, employees funded by grants grew by 472 FTE's.

School Spending

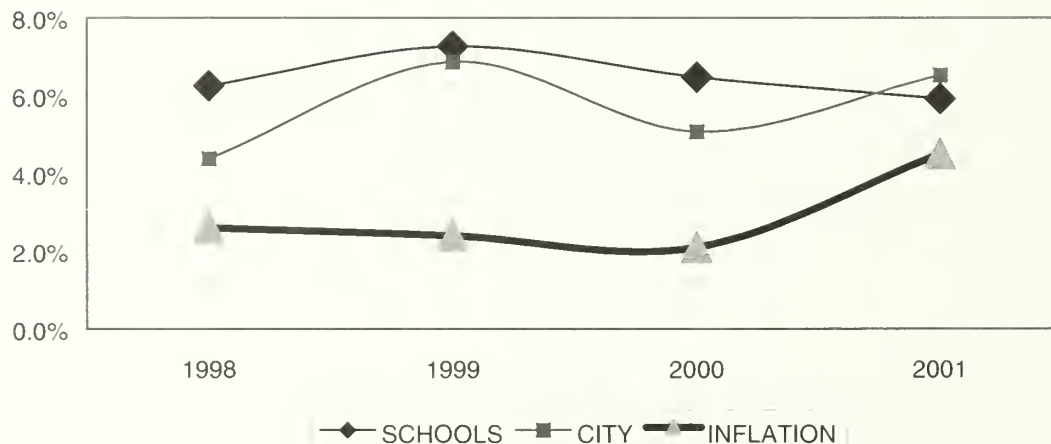
With the increase in school spending absorbing 36% of total city increase in spending over the past four years, it is useful to review school spending in more detail. The BPS fiscal 2002 budget totals \$573.5 million, not including benefits for employees and represents 32% of the total city operational budget. When benefits are added, school spending totals \$639.7 million or 36% of the total city operational budget. In fiscal 2002, the main accounts for school spending include: salaries \$429.6 million, transportation \$56.6 million, purchased services \$41.5, facilities \$32.0 million, supplies \$10.1 million, equipment \$2.1 million and miscellaneous \$1.5 million. As the City's largest department, the BPS's net school spending outpaced all other departments, growing by 29% or \$123.6 million from fiscal 1997 to fiscal 2001. Almost 80% of this growth is attributable to salary expenses, which increased by \$98.8 million or 31%, compared to the non-salary increase of \$24.9 million or 22%. Spending for transportation during this time absorbed 15% of the increase from fiscal 1997 to fiscal 2001. (Appendix F)

% GROWTH IN SCHOOL SPENDING SALARY VS NON-SALARY



By far the largest growth area was the teacher salary account, which increased by \$65.7 million or 31%. Generous collective bargaining agreements and the addition of 442 teachers led to these higher costs as enrollment remained static, increasing by only 22 students during this time. Contract initiatives to reduce class size, increase common planning time and expand instructional learning time by 4 to 10 minutes per day also effected staffing levels and costs. Second to teacher salaries, administration and instructional support salaries rose by \$33.1 million or 30% during this period. Transportation is the next largest growth area, increasing by \$18.6 million or 53% due to an increase in bus driver salaries, decisions to purchase new vehicles and higher ridership.

SCHOOL SPENDING, TOTAL CITY SPENDING VS INFLATION



Among instructional programs regular education is the largest area totaling \$220.2 million in fiscal 2002. From fiscal 1997 to fiscal 2001, instructional programs collectively grew by \$77.7 million or 25%. Regular education realized the largest increase growing by \$60.2 million or 38%. The once problematic area of special education, jumped by \$16.4 million or 15% during this time. Special education, that has experienced increases of 11% in a given year alone, has been managed more effectively in recent years requiring less of BPS resources. In fiscal 2000, rigorous enforcement of referrals and accountability reforms instituted in fiscal 1999 reduced special education costs by \$1.3 million or 1% and reduced enrollment by 2000 to 12,000 students. This effort contrasts with prior special education reforms that were promised yet never materialized. Pupil support has increased by \$58.7 million or 35% since fiscal 1997. The most dramatic increase is found in student services that since fiscal 1997 grew by \$24.9 million for a total of \$40.9 million in fiscal 2001. Transportation costs during the same time grew by \$17.5 million or 45% for a total of \$56.7 million in fiscal 2001. (Appendix G)

Mandatory Expenses

The City's mandatory expenses for debt service and state assessments are budgeted at \$186.4 million in fiscal 2002 an increase of \$13.4 million or 8% over fiscal 2001. Debt service accounts for \$118.8 million or 64% of mandatory costs in fiscal 2002. From fiscal 1997 to fiscal 2001, mandatory spending has grown by \$31.5 million or 22%, for an average annual increase of 4%. (Appendix H)

Debt Service

Boston's debt service, the cost of principal and interest on general obligation bonds and temporary bond anticipation notes or revenue anticipation notes, has grown at a significant pace, reflecting the sharp growth of the City's capital program. Consequently, Boston's debt service costs are creeping close to the limit of one of the mainstays of the City's debt policy. In fiscal 2002, the debt service account is budgeted at \$118.8 million, which represents an increase of \$12.7 million or 12% over the prior year. In the four years from fiscal 1997 to fiscal 2001, debt service spending has grown from \$79.0 million to \$106.2 million, an increase of \$27.2 million or 34%. Thus, over the past five years, debt service costs have increased by \$39.8 million or 50%. During this same period, the City's total operational expenses, including debt service, have increased by 29%.

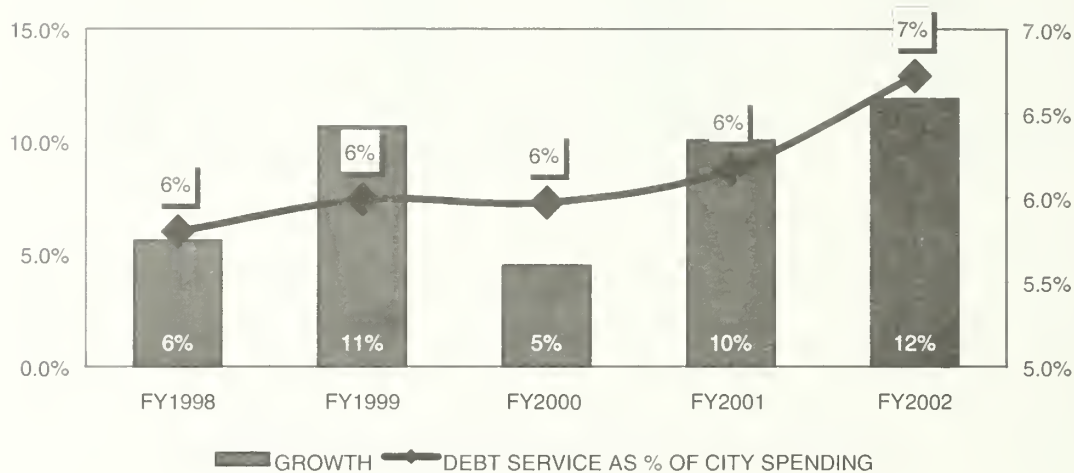
It should be noted that revenues from non-city sources offset part of the City's debt burden. For example, the Commonwealth, through its School Building Assistance program, reimburses the City for a portion of debt costs for new school construction. New dedicated revenues were established to fund the City's debt service expenses for the purchase and preparation of the land for the convention center in South Boston.

Debt management is an integral component of the City's overall financial management and has significant impact on the annual operating budget. As debt service increases, less revenue is available for other city services. A key component of the City's debt management policy is to not allow annual debt service costs to exceed 7% of total general fund expenditures. Debt

service as a percent of total city operational spending has increased from 5.7% in fiscal 1997 to 6.7% in fiscal 2002. This standard is conservative but highly touted by the City.

The section on the City's capital spending in this report explains the factors contributing to the debt service increases and describes steps being taken by the Menino Administration lately to manage the capital program.

DEBT SERVICE GROWTH



State Assessments

State assessments represent charges by the Commonwealth for services to Boston and total \$67.5 million in 2002. Total assessments for Boston increased by \$4.3 million or 7% from fiscal 1997 to fiscal 2001. The MBTA assessment for Boston's share of the net cost of the service deficit is the major assessment for the City at 93% of the total in 2002. The relative limited growth of State Assessments is due to the fact that Proposition 2½ limited increases in assessments to 2.5% of the prior year's assessment. MBTA assessments from fiscal 2000 forward are affected by the State's new "forward funding" plan for the MBTA.

Collective Bargaining

Collective bargaining contracts negotiated between the City and its 44 employee unions cover the past few years have had a significant effect on the City's finances, as evident by the 33% increase in spending for employees since fiscal 1997. The City engages in collective bargaining negotiations with 90% of its employees. At this time, most city employee contracts will expire on June 30, 2002, except the contracts with teachers, firefighters and middle managers.

Given the labor intensity of city operations, collective bargaining has a significant impact on both the City's financial position and how efficiently services are delivered. Since fiscal 1995, contracts have been primarily economic based, as most unions received a 3% annual increase and the Administration negotiated benefit improvements for residency and performance evaluation language. Contracts covering patrolmen and teachers were the most progressive, with management and unions agreeing to reforms or changes in operations. However, both contracts came with high price tags. Average base salaries for teachers, excluding benefits, increased by 15% and for police officers by 19%. However, outstanding questions remain (which cannot be answered by this report) as to whether the new management provisions negotiated since fiscal 1995 have been utilized effectively. This issue can be looked at in two ways: (1) were new management provisions worth the price paid and (2) is the Administration fully implanting the provisions of the contracts effectively. For example, in return for salary increases of 3% each year, the Administration negotiated language that requires performance evaluation of employees. However, this is strictly advisory since these agreements stipulate, performance evaluations cannot be used to determine promotion, demotion, or compensation.

Step increases of 4% for most employees

Often overlooked in discussions about collective bargaining is the fact that employees, not at the maximum salary level, receive step increases every year, resulting in annual salary increase on average of 4%. A step increase is received each year even if a contract has expired and a new contract has not yet been negotiated. A typical contract provides for 9 steps that an employee must move to before reaching maximum salary for that position. The employee moves to the next step generally at his/her job anniversary date each year. With each step comes an increase in salary. In practice, a step increase is automatic and not contingent on a satisfactory evaluation. Step increases represent a key hidden cost that drives personnel expenditures even without a salary increase. The table below demonstrates the effect of step increases and negotiated raises on some key positions in the City. These positions represent the average employee in that group and assumes the person remains in the same position during the entire time frame. Thus a teacher in this position has received, in aggregate, a 33% increase in salary in just three years.

POSITION	1999 SALARY	2002 SALARY	% INCREASE
Teacher	\$45,455	\$60,492	33%
Middle Manager	\$55,507	\$66,451	20%
Librarian	\$35,627	\$44,420	25%

It should be noted that these scenarios: 1) exclude benefit increases such as career awards, sick/vacation time, and uniform allowances; 2) do not apply to those employees at the top salary step, who receive increases only when a new contract is signed.

Fiscal 2003 Budget

On April 10, 2002, the Mayor presented his recommended fiscal 2003 budget of \$1.784 billion to the City Council. This budget is balanced, however, the Mayor indicated a \$50 to \$100 million structural gap existed prior to the paring down of the spending plan submitted to the Council. The major cause of this structural gap is the expected downturn in state aid with no significant growth expected in other revenues except the property tax, coupled with collective bargaining expectations and increased spending for debt service, pensions and trash collection and disposal. To meet a balanced budget in fiscal 2003, the City has tightened spending, reduced its overlay reserve and used some of its reserves. The result in fiscal 2003, is no real impact on basic services, minimal layoffs and the City's financial position remains strong. The "belt tightening" process was not completely painless, nor was it extremely difficult. The fiscal 2003 budget represents a more conservative spending plan to meet the slower growth in revenues. This financial situation actually forced a "correction" to the City's budget after years of steady spending growth.

Fiscal 2003 Revenue Highlights

- The two main revenue sources for the city, state aid and the property tax, will total \$1.469 billion a decline of \$7.3 million or 0.5% due to the cut in state aid. These revenues represent 82% of total available revenues in fiscal 2003,
- The net property tax levy is projected to total \$984.1 million, a \$58.2 million or 6% increase over fiscal 2002. The net property tax totals 55% of operating revenues in fiscal 2003. New growth is budgeted at \$22 million and the 2½% growth totals \$24.3 million. The City has also decided to reserve only 3.4% of its gross property tax in an overlay reserve for abatements in fiscal 2003. This results in freeing up approximately \$17 million for operations.
- For the first time since fiscal 1992, the City is relying on \$12.0 million from "free cash" or the budgetary fund balance reserve to balance the fiscal 2003 budget.
- The City projects state aid to total \$485.0 million in fiscal 2003, an effective cut of 10% from fiscal 2002 cherry sheets. Lottery is the only account the City assumed would remain level funded from fiscal 2002. Even reimbursements for expenses such as teacher pensions are assumed to be cut by 10%.
- The remaining 18% of revenues total \$315 million, a growth of \$20 million or 7%.

Fiscal 2003 Expenditure Highlights

- The recommended fiscal 2003 budget reduces the spending of most departments and re-organizes several other departments. Noteworthy departmental increases are planned for: the Fire Department, increasing by \$3.7 million or 3% from fiscal 2002 for collective bargaining and Public Works, expected to grow by \$4.1 million or 6% due to an increase in trash collection and disposal costs as well as expanding the street-lighting capacity of the Department.
- Spending for employees will absorb 69% of the fiscal 2003 budget – including salaries, overtime and benefits. The fiscal 2003 budget for employees totals \$1.221 billion, of which salaries and overtime total \$889.9 million and employee benefits total \$317.7 million. Salaries and overtime increased by \$19.0 million or 2% over fiscal 2002 and employee benefits represent a growth of \$7.5 million or 2%. The City expects to reduce its workforce by 277, primarily through attrition and limited layoffs in the school department.
- Overall school spending in fiscal 2003 remains at fiscal 2002 levels. Benefits for school employees is the driver of this budget, increasing by \$3.9 million or 6% over fiscal 2002. Teacher salaries also increased by \$5.5 million or 2%. These were offset by reductions in property maintenance, purchased services and central administration. The school budget anticipates a reduction of 223 positions in fiscal 2003.
- The City's mandatory expense for debt service and state assessments are budgeted at \$195.5 million in fiscal 2003 an increase of \$9.1 million 5% over fiscal 2002. Debt service accounts for \$126.9 million, an increase of \$8.2 million or 7%. Debt service and state assessments represent 11% of total spending in fiscal 2003. In fiscal 2003, the debt service budget represents 7.1% of total spending – exceeding the City's policy of keeping debt service costs at no more than 7% of total spending. State assessments in fiscal 2003 total \$68.5 million, a \$981,486 or 2% increase over fiscal 2002.

Grant Funds

City operations received considerable support from external funds through state and federal grant programs in addition to the General Fund. In fiscal 2002, grant funds are budgeted at \$364.2 million and support 2,942 employees. In the four years from fiscal 1997 to fiscal 2001, grant revenues increased from \$258.4 million to \$356.7 million, a growth of \$98.2 million or 38%.

Of the \$356.7 million in grant funds in fiscal 2001, \$116.8 million or 33% were received by the School Department for its programs, \$89.1 million or 25% for Suffolk County services and \$69.4

million or 20% were received by the Department of Neighborhood Development for housing and economic opportunity programs. Grant fund resources are usually targeted for specific purposes and often are regulated by stipulations attached to acceptance of the grants. Annual awards are based on statutory formulas, reimbursement policies, and competitive application rules.

From fiscal 1997 to fiscal 2001, grant revenues increased by \$98.2 million or 38%. A large part of this increase (49%) was earmarked for school purposes. Suffolk County received 21% of the grant increase and the Boston Public Library 11%. The Department of Neighborhood Development absorbed only 2% of the increase and totals \$69.4 million in fiscal 2001.

The **BPS** has received Federal & State grants to help:

- Reduce class size
- Enhance classroom technology
- Promote early childhood education
- Provide for literacy programs
- Provide breakfast & lunch for low income students
- Enhance special education

The Department of **Neighborhood Development** has received Federal & State grants to help:

- Create & retain affordable housing
- Improve business districts
- Assist non-profits that operate emergency shelters
- Improve vacant lots
- Spur economic opportunity in the City

The **Police** Department has received Federal & State grants to help:

- Hire new police officers
- Upgrade police equipment
- Expand community policing and neighborhood outreach

APPENDIX I outlines the grants by department since 1997. Not included are trust funds received by the Boston Public Library and BPS and Welfare to Work grants received by the Office of Jobs and Community Services.

Grant Funds Fiscal 2003

Grant funds in fiscal 2003 are expected to total \$367.5 million an increase of 0.9% over fiscal 2002. The School Department is expected to receive \$126.7 million in grants or 35% of the total. This is followed by County at \$93.0 million or 25% of the total and Neighborhood Development at \$75.6 million or 21% of the total.

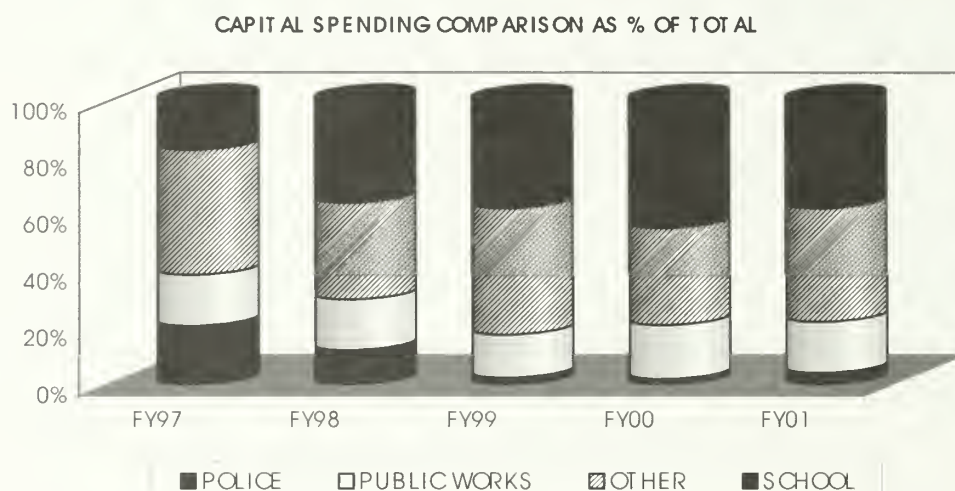
Capital Budget

The City of Boston's plans to build, maintain and improve the City's infrastructure and other capital assets are contained in its annual five-year capital plan that now is integrated with the operating budget. The City's capital budget has increased significantly over the past six years, requiring more focused management and control over spending in recent years and in the future. Earlier policy decisions driving capital spending have had to be modified lately to improve the balance of new initiatives with basic ongoing infrastructure needs within available revenues. As a consequence of new management controls, total capital spending decreased in fiscal 2001 and is expected to drop further in fiscal 2002.

Capital Trends

By any measure, Boston's net actual capital spending exploded in the five years since fiscal 1995, from \$64.3 million in fiscal 1995 to \$132.3 million in fiscal 2000, an increase of \$68.0 million or 106%. Capital spending may fluctuate by year. In fiscal 1998, actual spending for capital projects reached \$145.9 million as a consequence of an increase in school capital spending by \$42.5 million over the prior year. Capital spending for school projects, especially the three new schools, contributed to the rapid growth. In the four-year period from fiscal 1997 to fiscal 2001, capital spending increased by \$26.6 million or 21%. The lower spending increase reflects the reduction of capital spending in fiscal 2001 to \$128.6 million, a drop of \$3.7 million or 3% from the prior year. Capital spending in fiscal 2002 is expected to drop to slightly below \$100.0 million due to enforcement of the Administration's capital management control policies that will be explained below.

Actual capital spending for school purposes accounted for much of the increase during the last four years as its share of total capital spending increased from 17% of net capital spending in fiscal 1997 to 38% in fiscal 2001. As another indicator of the growth of school capital spending during those four years, school spending increased by \$35.8 million or 166% while capital spending for all other purposes actually decreased by \$9.1 million or 9%. During that time, capital spending for police and property management projects decreased as work on the new Police Headquarters, a new South End police station and City Hall and other municipal buildings phased down. With the construction of three new schools, technology initiatives, basic facility infrastructure improvements, current renovations to South Boston High School and the planned expansion of Burke High School, school projects will continue to drive Boston's capital spending over the next several years.



The analysis above reflects net capital spending that includes the capital expenditures supported by the City's General Obligation (GO) bonds and Bond Anticipation Notes (BANs) and excludes spending funded by grants or other external funds. Boston Convention and Exhibition Center (BCEC) debt is excluded since authorized revenues support its debt service expenses. Debt for the total project cost for new school construction is included. The School Building Assistance (SBA) reimbursement Boston receives is included in its state aid total and offsets a portion of the City's debt service expenses.

Fiscal 2002

The current five-year capital budget (FY02-06) totals \$1.485 billion. For fiscal 2002, the City budgeted \$112.8 million but estimated that it would spend \$100 million and issued GO bonds for that same amount. The difference was expected to be bridged through the careful management of the capital process and a natural delay in the timing of the capital work from the original cash flow schedules. The sale of \$100 million in fiscal 2002 is \$20 million less than issued in each of the past three years. The City also issued BANs of \$62 million for work on the three new schools.

On April 15, 2002, the City converted \$157.8 million of BANs for its share of the BCEC project to \$117.6 million of special obligation long-term bonds whose debt service is funded by dedicated revenues. Dedicated revenues collected in excess of debt service requirements since fiscal 1998 enabled the City to pay down the BANs and decrease the long-term borrowing by \$40.2 million, thereby reducing interest costs over a 20-year period.

The Five Year Capital Plan

Boston's five-year capital plan recommended in the fiscal 2003 budget totals \$1.392 billion, a 6% reduction from the prior five-year plan. The City's general obligation borrowing will finance 60% of the total with state, federal, trust and other funds providing the balance. Approximately 91% of the City's total capital spending over the five years is planned in the following seven areas: public works (38%), schools (24%), parks and recreation (12%), neighborhood development (6%), libraries (5%), public safety (5%) and BRA (2%). In fiscal 2003, the Administration has planned capital work totaling \$86.9 million. However, in anticipation of normal planning and construction delays, the Administration expects to spend \$75 million next year and will issue bonds for that amount. This situation will require the Administration to be diligent in managing actual capital expenditures. For the three new schools in fiscal 2003, the City will issue BANs for the balance of \$34.0 million and roll over the initial \$25.0 million sold in fiscal 2001, for a total of \$59.0 million. In fiscal 2006, the Administration expects to convert \$121.0 million in BANs into 15-year GO bonds.

Managing Capital Spending

The rapid growth of capital spending and debt service has caused the Menino Administration to take steps to better manage the capital budget process. In fiscal 2000, the Office of Budget Management initiated a Request To Advertise (RTA) process that requires departments to submit a form describing the project and the anticipated cash flow by year before proceeding to advertise the project. This process has allowed the Administration to better control the timing of projects moving forward based on need and available funds. The Administration also has anticipated the natural delay in the capital planning and construction process and will issue bonds based on expected expenditures, not the full cash flow budget.

For some time, the City has adopted a set of debt management policies that are implemented by the Treasury Department. The goal is to rapidly repay debt, maintain a conservative level of outstanding debt and maintain a strong financial standing with the bond rating agencies. Key components of the debt management policies ensure that:

WHAT IS THE CAPITAL BUDGET?

The City's capital budget addresses the traditional areas of maintenance of the City's roads, sidewalks, bridges and parks and improvements to municipal and school facilities. Also included are studies to lay the groundwork for future capital projects.

The capital plan is updated annually with new projects introduced and projects presented in prior years continuing from the design and engineering phases through construction to completion. The City's Office of Budget Management is responsible for the capital planning function.

In recent years, the capital budget has devoted significant resources to technology improvements for the city departments. Big projects such as the acquisition and preparation of the site for a new convention center and the building of three new schools have been incorporated into the capital budget.

New revenue sources will support the costs associated with the convention center and state School Building Assistance will fund approximately 65% of the City's debt service costs for the three new schools.

- Combined net debt does not exceed 3% of taxable assessed value.
- At least 40% of the overall debt is repaid within 5 years and 70% within 10 years.
- Annual gross debt service costs do not exceed 7% of General Fund expenditures.

One way the City is controlling its capital expenditures and related debt service costs is to reduce the amount of its annual sale of General Obligation bonds. As in the chart to the right, Boston sold GO bonds of \$120.0 million in fiscal years 1999, 2000 and 2001. The GO bond sale was reduced to \$100.0 million in fiscal 2002 and is planned to be reduced further to \$75.0 million in fiscal 2003 and possibly in fiscal 2004.

**GENERAL
OBLIGATION BOND
ISSUANCE**
figures in 000's

FISCAL YEAR	AMOUNT ISSUED
2003	\$75,000
2002	100,000
2001	120,000
2000	120,000
1999	120,000
1998	90,000
1997	90,000

The significant capital costs that the City must finance for the building of the three new schools has required the Administration to establish a new approach for debt service payments. The aggregate capital costs for the three schools (The New Middle School (6-8), Orchard Gardens (K-8) and Mildred Avenue (6-8 with Community Center) is estimated at \$121.0 million of which the Commonwealth will pay 90% of the allowable expenses. However, Boston's expenses per square foot exceed state standards, resulting in the City absorbing a larger share of the total costs. The effective rate of the state reimbursement is approximately 65% with Boston's net costs totaling \$42.0 million plus interest. The City will finance the construction of the three schools initially by issuing BANs of \$25.0 million for two years in 2001 and \$62.0 million for four years in 2002 based on the cash flow requirements of the projects. The balance of approximately \$34.0 million will be issued in fiscal 2003 and the initial \$25.0 million will be rolled over for a total of \$59.0 million. The BANs can be rolled over for five years during which time the City will only make interest payments. The City expects to convert the BANs of \$121.0 million into long-term GO bonds in fiscal 2006 and structure its annual debt service costs to match, as far as practical, the amount of the annual SBA reimbursement. Any delay by the Commonwealth in the reimbursement schedule beyond five years, would necessitate that the Commonwealth also allow municipalities to extend the time to roll over their BANs to up to seven years. The three schools are expected to open in September 2003.

Policy Decisions That Impact Spending

Over the past several years during this period of strong economic growth, decisions have been made that expand or add to the base services the City provides. These goals and objectives, while important, do come at a cost. These costs have been building up the base and

expanding city spending. Collective bargaining agreements contain decisions about salary and benefit increases as well as decisions on policies or programs requiring added staff or accept state programs such as the Quinn Bill. Decisions about complying with state requirements such as the Education Reform Act and Special Education influence spending commitments. Some of these decisions include mayoral initiatives to make all schools Internet accessible and to provide a computer for every four students. Capital decisions about the construction of new schools, libraries, police stations and community centers create added operational expenses and increase debt service costs.

The Quinn Bill

The City's acceptance of the Quinn Bill is a prime example of a costly spending initiative that was approved with insufficient evaluation of its impact on city finances. Before the City accepted the Quinn Bill, the Bureau cautioned that this benefit would become an extremely high cost program with a significant impact on the City's long-term finances as more officers receive degrees and others retire with higher base salaries. In fiscal 2002, a total of \$13.7 million was paid out to approximately 1,257 police officers. The City is reimbursed by the Commonwealth for half of each year's costs in the following year. In fiscal 2002 and 2003, this cost would effectively equate out to between a 5% and 6% increase in the base salary of the average police officer. These percentages reflect only Quinn Bill costs. The cost rises if non-reimbursable pension costs, attributable to higher Quinn Bill related salaries, are included.

The actual implementation of the Quinn Bill has raised concerns about whether the quality of police performance will be commensurate with the significant costs involved. The only state requirement of a college that offers a Quinn Bill program is that it be accredited by the New England Association of Schools and Colleges. There are no statewide standards for curriculum frameworks, credentials for instructors, attendance or course requirements to ensure general uniformity of instruction. Neither the Commonwealth's Secretary of Public Safety nor local police chiefs play a formal role to ensure officers meet high academic standards. For instance, in order to expedite graduation, area colleges can award credits or waive course requirements in exchange for standard police academy training or a term paper describing life experiences. Well before an officer enters the classroom, a portion of the credits required to earn a Bachelor's Degree can be waived mostly based on training already paid for by the taxpayers. Participating police officers are not even subject to statewide exit exam. In short, the state is demanding far more from its graduating high school students than from its police officers who are presumed to provide better services and are certainly getting substantial salary and benefit increases upon receiving an Associate, Bachelor, Master or Law Degree.

WHAT IS THE QUINN BILL?

In September 1998, the Menino Administration negotiated a new contract with the Boston Police Patrolmen's Association (BPPA) that accepted the Quinn Bill educational incentive program to replace a less lucrative existing program. The Quinn Bill became effective in 2001 and once negotiated for the members of the BPPA, its benefits became available for all eligible Boston police officers. Below are a few key points about how the program works and who pays for it.

The "Quinn Bill", or the Police Pay Incentive Program, is a state-defined education incentive offered exclusively to uniformed police personnel holding a Law Enforcement, Criminal Justice or Jurist Doctor degree.

Under this program, police officers employed by a participating municipality are granted pay increases of 10% for an Associate Degree, 20% for a Bachelor Degree, and 25% for a Master or Law degree. Boston is the 179th community statewide to offer these benefits since 1970.

New base salary costs are split between the state and city 50%-50%. However, new overtime, pension, vacation and other collective bargaining costs are not reimbursable and must be absorbed by the community.

The only academic requirement is that the officer graduate from a New England-based college accredited by the New England Association of Schools and Colleges. Thus, a relevant degree from a college in New York or Pennsylvania does not qualify.

The long-term financial impact of accepting the Quinn Bill will rise each year as more officers get degrees, and others retire with higher base salaries.

Boston's Future

Coming out of the recession of the early 1990s, the City of Boston has managed to effectively establish itself in a good financial position. The City has benefited by a vibrant economy, a strong real estate market, low unemployment, greater business diversity and a low crime rate. Revenues available to the City have been able to support a high rate of spending and expansion of city services during this time. Additionally, the City has been able to build-up its reserves and expand its capital investment in the City. With strong revenue growth each year, less emphasis was put on spending controls and achieving management efficiencies. As has become evident, this situation will need to be changed starting in fiscal 2003 and moving forward.

The Bureau's findings indicate that the City of Boston will not be able to maintain its high rate of spending over the next several years since the high revenue growth of the past will not

continue in the future. Revenue growth is expected to decline, particularly state aid, reflecting the slow-down in the regional economy. As a result, the City must devote more emphasis on controlling spending and managing operations more effectively. The City prepared for a reduction in revenues this year by instituting a personnel committee to review all positions that are to be filled and examining the major services the City provides. In the recommended fiscal 2003 budget, the Menino Administration assumes a modest increase of 0.7% over the fiscal 2002 budget. This retrenchment reflects the "belt tightening" process the Administration undertook over the last several months. This "belt tightening" process in reality has been a "correction" to the high spending rate of the past. The future may not be as easy to manage as fiscal 2003.

The revenue decline comes at a time when more pressure is being exerted on the spending side of the budget. Boston is faced with the costs of past initiatives negotiated in current contracts such as the Quinn Bill. In fiscal 2003, the City faces increasing pension obligations and growing health insurance premiums. Additionally, the expiration of most collective bargaining agreements on June 30, 2002, will need to be addressed. As a result of an ambitious capital program, the City's debt service will increase, causing it to exceed the mainstay of its debt policy, which is to keep debt service spending below 7.0% of total operational expenditures. Thus, the City must be more careful with its budget decisions for both the operational and capital budgets.

The Bureau projects that the city will end fiscal 2002 with a surplus of \$1.7M or 0.10% of total budget. In fiscal 2003, the Bureau projects a structural gap between \$40.0 million and \$60.0 million. This gap anticipates no new General Fund spending for initiatives such as housing and assumes a modest increase in employee spending. Revenues are projected to grow conservatively with a 10% reduction in state aid.

In fiscal 2004, the Bureau projects a structural gap of \$50.0 million to \$70.0 million. This gap also anticipates no new General Fund spending for initiatives and a modest increase in employee spending. Revenues are also expected to increase at a modest rate. The fiscal 2004 gap builds off of the gap in fiscal 2003 and does not take into consideration any "belt tightening" measures being pursued in fiscal 2003.

PROJECTIONS FY02- FY04	
Fiscal 2002	\$1.7 million surplus
Fiscal 2003	\$40 - \$60 million gap
Fiscal 2004	\$50 - \$70 million gap

The Bureau projections are based on detailed analysis of the City's expenditure and revenue accounts, a review of five years of historical data and extensive discussions with city and state officials. With the submission of the preliminary fiscal 2003 budget, the City has essentially dealt with the structural gap and submitted a balanced budget. If the City did not take the steps to control the spending plan in fiscal 2003, the structural gap would hold. The following pages outline the assumptions used in this analysis.

The Outlook for Fiscal 2002

Fiscal 2002 will end June 30, 2002 and at that time the Bureau expects the City to post a modest surplus of approximately \$1.7 million. City revenues are projected to come in at \$1.774 billion, \$2.0 million more than budgeted. The major change in revenues anticipated by the Bureau is an increase from the Massport PILOT payment (originally anticipated to be lower due to increased financial pressure at the airport), greater success with the Medicaid reimbursement account and better than expected jet fuel excise tax collections, as well as smaller adjustments in other accounts.

On the spending side, the Bureau projects \$1.772 million will be spent in fiscal 2002. This is a minimal increase over the budget. This projection includes a savings in the Health Insurance account and an increase in school spending due to collective bargaining agreements.

The Outlook for Fiscal 2003

On April 10, 2002, the Mayor presented his recommended fiscal 2003 budget of \$1.784 billion to the City Council. Prior to April 10th, the Mayor indicated that the City faced a \$50 to \$100 million structural gap. The Mayor's spending plan submitted to the City Council is balanced and reflects steps taken to tighten spending. The Bureau projects if state aid were cut by 10% and if no spending controls were administered, this structural gap would be in the range of \$40.0 to \$60.0 million or 2.3% and 3.4% of total fiscal 2002 spending. The Bureau's structural gap projection assumes the following:

- Maintenance of all fiscal 2002 existing programs and personnel levels.
- A 3% increase in personnel service spending
- Increase in the trash collection and disposal contract costs
- Debt service less temporary loan interest of \$3.0 million
- School spending that reflects a \$30.0 million gap estimate
- City non-personnel spending increases by 3%
- Level funding of the Public Health Commission
- Decline of 10% in state aid with the exception of the Teacher Pension reimbursement
- New Growth of \$22 million added to the property tax
- An overlay reserve of 3.5% of gross property tax
- Modest growth of 2% in all other revenues
- No use of reserves (Budgetary Fund Balance)

The Outlook for Fiscal 2004

In fiscal 2004, the Bureau projects a structural gap of \$50 to \$70 million if the City's revenue and operating structure remains constant (based off of the structural gap projected in fiscal 2003). In fiscal 2004, the Bureau assumes the following:

- Maintenance of existing programs and personnel levels.
- Increase in spending for employees of 3%
- City and school non-personnel spending increase of 3%
- Level funding of the Public Health Commission from fiscal 2003 projections
- Level funding of state aid from fiscal 2003 projections
- New growth of \$20.0 million added to the property tax
- Overlay reserve of 4.0% of gross property tax
- No use of reserves (Budgetary Fund Balance)

Recommendations

The estimated structural gaps facing the City in fiscal 2003 and fiscal 2004, represents anywhere from 2-5% of the City's operational budget in fiscal 2002. Although the percentage is relatively small, enabling Boston to sustain the delivery of basic public services will require decisive action by the City. The Commonwealth is expected to face fiscal pressures for a period of 2-3 years that will affect Boston's local aid situation for that period or longer. Boston must develop and carefully manage a multi-year fiscal strategy to insure the continuation of basic service delivery. The current financial situation provides an opportunity for the City to re-evaluate current operational practices and to institute creative management improvements. The Mayor's recommended budget for fiscal 2003 is not based on any new taxes or major fees. The following recommendations identify opportunities for Boston to reduce the gap further by controlling its spending through more productive use of its available resources. To address the current financial situation, the City's should place its emphasis first on cutting costs and improving service delivery before considering new revenue sources unless equity is at issue. For that reason, the recommendations offered by the Bureau in this report will address only cost-efficient steps to improve basic service delivery. During the year, after the state budget for fiscal 2003 is approved, the Bureau will issue subsequent reports on the City's fiscal position and will offer further recommendations addressing Boston's management and revenue requirements.

Boston cannot continue with the same level of increased spending of the past. The increases in state aid that Boston has received over the past few years will not be available in the near future, requiring the City to pare down the rate of spending over the next 2-3 years. In fiscal 2003, this process was achieved with no cuts in base services and limited layoffs. This task in fiscal 2004 will be more difficult and the Administration should plan now for spending reductions in non-essential services over the next few years. Spending needs to be slowed and expectations need to be more realistic.

WORK FORCE REDUCTIONS - Steps taken by the Menino Administration to reduce city employee levels will need to be continued in fiscal 2003. The joint effort by the Offices of Budget Management and Human Resources to review all requests to fill vacant positions should not stop at the end of this fiscal year. This team will be needed to insure that the positions cut or not approved for the fiscal 2003 budget are not filled unless absolutely necessary or because they will generate revenues in excess of their costs. In addition, the team will need to insure that the Administration's goal of not "back filling" more than 20% of those positions that become vacant as employees take advantage of a possible Early Retirement Incentive program is achieved. Reflecting the labor intensity of government services, the cost for city employees represents almost 70% of total city operational spending in fiscal 2002.

HUMAN RESOURCE MANAGEMENT - The Administration should strengthen and modernize its personnel management operation and develop a performance-based personnel system that ties performance measures to wage increases and promotions. With almost 70% of

spending tied to employee costs, efficient personnel management is critical to Boston. The City should take advantage of existing Civil Service regulations to assume more responsibility for creating innovative, centralized hiring and promotion policies that are consistently and fairly applied and meet affirmative action needs. The City's job descriptions are not current and do not reflect today's need for city employees to perform multiple tasks in providing departmental services. The increased cost to improve the City's personnel management system should be offset by more efficient operations and improved productivity.

The Administration should focus more attention on re-invigorating the City's management training program. Continuing professional development for department heads and managers, many of whom have moved up the ranks without necessary training, is critical for the City to meet today's challenge to work more efficiently. This program has suffered since the relocation of its center in 2001. A renewed commitment with high expectations, adequate resources and appropriate space in a centrally located facility are needed to equip the City's managers with the tools to deliver improved services.

COMPETITION IN SERVICE DELIVERY - To improve service efficiency and control costs, competition should be introduced in all areas of government. Services that lend themselves to competition or "outsourcing" should be identified and bids sent to legitimate sources, both city employees and private companies, with the lowest bid selected. Where appropriate, the City should look at areas where it can work more as a skilled purchasing manager, than a service provider. Productivity gains realized from these "city-competitive" contracts should be shared with the employees in short-term agreements. Several city services are currently contracted out, most notable the collection and disposal of solid waste. Some obvious areas that should be considered by the Mayor and City Council are: (1) public works functions such as the operation and maintenance of the City's three drawbridges, (2) custodial functions in the School Department and (3) management information services throughout the City. The City's adoption of Activity Based Accounting to accurately identify the true cost of providing each city service would facilitate the implementation of this recommendation.

SCHOOL CONTRACT CLEANING - The School Committee should open the cleaning for the three new schools that will start in September 2003 to a competitive bidding process for both school custodians and private contractors. The existing contract with the BPS custodians authorizes the School Committee to institute contract cleaning in new schools. The bid selected should be established as a pilot program for three years, after which the BPS can evaluate the performance and determine whether to continue all or parts of the service on a contractual basis. The Menino Administration pushed hard to win this provision in the custodians' contract. The opening of the three new schools in a year gives ample opportunity and time to effectively institute a management tool the Administration paid generously to secure.

DEVELOP FIRE ACTION PLAN – The Administration should develop a fire service action plan based on the recommendations of the 1995 and 2000 management reports concerning the operation, organization and management of the Boston Fire Department. The plan should indicate which recommendations from the two reports it has implemented and which it will seek to implement with a timetable for action. On January 20, 2000, the Mayor received the findings and 66 recommendations of the Boston Fire Department Review Commission, chaired by Kathleen O'Toole. The 1995 report was prepared for the Menino Administration by MMA Consulting Group and contained 83 recommendations that if fully implemented would have saved \$3.8 million in fiscal 1996. Together, these two reports represent a fairly thorough assessment of the Fire Department and present a good blueprint for reform. Some of the recommendations of the O'Toole Commission requiring changes in the collective bargaining agreement have been implemented in the current contract but little action has been taken on the approximately 140 other recommendations that were made between the two reports.

MANAGING COLLECTIVE BARGAINING - The City should improve its implementation and management of existing collective bargaining contracts and demand in new contracts language changes that will improve the efficiency of city services. Negotiated contracts have become the vehicle for language changes to establish operational improvements in addition to salary and benefit increases. City and school officials generally have not devoted sufficient attention to insure that the provisions of collective bargaining contracts that would improve efficiency of city government are fully implemented. The City's negotiation process needs to be taken more seriously. By not enforcing provisions previously won, the City allows union officials to make a case that more changes are not needed because managers have not implemented the tools already available to them to improve operations. New contracts should include or strengthen existing performance evaluation language that gives weight to performance evaluations in compensation, promotion or demotion decisions. Step increases for employees not at the maximum salary level should not be automatic each year but should be based on a satisfactory performance evaluation.

STUDENT ASSIGNMENT REVIEW – The School Committee should initiate a series of public discussions on the issue of revising the student assignment process to reflect the City's current demographics, interests and financial position. In the near future, the School Committee will be presented with a proposed new approach for assigning students to the three new schools that will be opening in September 2003. Rather than use the existing assignment process, a new approach is being considered based on concentric circles around the new schools. This new configuration can be the catalyst for a broader discussion that will focus on how to balance the different interests of providing more options to students with that of adopting walk zones to neighboring schools. The trade offs of more diversity or greater homogeneity are tied to these choices. Certainly, the impact of this debate on future transportation needs will be important in the final decision. The location of special needs classes also should be included in this discussion.

QUINN BILL - The Massachusetts Board of Higher Education should finish its evaluation of the Quinn Bill, a local option education incentive plan for police officers. The Board appointed a Criminal Justice Review Committee that submitted a "paper review" of 43 educational institutions in December 2001. The Board now should conduct independent site visits to complete the study. Should the site visits be as critical as the paper review, the Legislature should plan on its own independent evaluation of whether the Quinn Bill program's benefits are commensurate with its high costs for both municipalities and the Commonwealth and whether the program should be continued or restructured. Quinn Bill costs for Boston in fiscal 2002 were \$13.7 million and for the Commonwealth \$37.8 million. Half of Boston's expenses are reimbursed by the state. At a minimum, the Massachusetts Board of Higher Education should establish uniform education standards and the Legislature and Governor should restructure the financial incentives for earning a degree. The Board of Higher Education should be authorized to establish uniform regulations for institutions of higher education offering degrees in criminal justice or law enforcement that require high standards for curriculum frameworks, faculty credentials, facility resources, attendance, and whether or to what extent credit should be given for Academy work and past experiences. The Secretary of Public Safety should collaborate in this task. The basis for the financial incentive for each officer should be changed from a percent of salary to a fixed dollar amount to make state and local expenses more reasonable. Retirement and overtime costs for a municipality are increased by the higher salaries paid police officers because of the Quinn Bill.

DEPARTMENTAL OPERATION REVIEW -A system to provide a comprehensive management study of the operations of at least one major line department of the City each year should be established by the Administration. The review of the Fire Department in two parts and the assessment of the Election Department by McKinsey & Company are good models in that they identified areas of inefficiency and made recommendations for improved service delivery. A comprehensive operational review process does not exist now but certainly would give department heads incentive to devote more attention to service efficiency and human resource issues. The Office of Budget Management has instituted a FACTS program that provides a helpful but more limited assessment of services than proposed here. The experience with the Fire Department studies shows that the Administration must be committed to implementing the study's key recommendations if the management review is to be successful.

REGIONALIZATION - Boston should continue to participate in and support the Metropolitan Mayors Coalition in the efforts to develop collaborative strategies and programs that can provide efficiencies and cost savings. Boston is a member of the Metropolitan Mayors Coalition that consists of the seven Mayors and two City Managers of the nine cities of Boston, Cambridge, Chelsea, Everett, Malden, Melrose, Medford, Revere and Somerville. Among other goals, the Coalition promotes cost control and savings by exploring and implementing collaborative service arrangements on administrative and operational issues. For example, on the issue of group health insurance services for municipal employees, the Coalition is working to create a combined program to control cost increases through greater economies of scale.

Urban regionalism has been elusive in the Boston metropolitan area in the past. However, in these economic times and with the staff assistance from the Metropolitan Area Planning Council, regional collaboration is worth pursuing and Boston should take full advantage of this opportunity.

USING TECHNOLOGY - Boston should do more to utilize existing technology to improve the efficiency of service delivery and the productivity of its employees. The City has implemented a new financial and human resource system at great expense and should commit to fully utilizing its capabilities. Staff training is essential for success and most training can be done in-house. The data collected from this system can provide management reports or analysis to help managers run city government more effectively. While some departments, such as the Assessing Department, are progressive with their use of technology and have embarked on projects that use technology as a tool to improve operations, other city departments have not yet taken advantage of this tool and further efficiency savings are achievable. City purchasing is one area where economies can be realized by embracing the technology capabilities. The Purchasing Department could do more to utilize e-commerce to improve services and reduce costs.

IMPROVEMENT IN GRANT MANAGEMENT - The City needs to establish a uniform method for accounting and tracking grant funds. The Office of Budget Management should be charged to project current grant trends into the next three years. Grant funds form an integral part of the City's revenue stream, representing 17% of grant and general fund spending in fiscal 2002. How these grant funds are used by the City is a critical part of the City's service delivery model. In some cases, grants are used as leverage to secure additional funds from private sources. What is now missing from the City's budget process is a uniform process to track, project and measure the effectiveness of grant revenues in city operations. Several major city programs, many of which are also mayoral priorities, depend on grant funds to cover at least half of their costs.

SERVICE CONSOLIDATION - The Administration should consider additional opportunities to consolidate operations in different departments that provide similar services to achieve cost savings and improve service delivery. The Mayor's recommended fiscal 2003 budget does propose the transfer of a few services from one department to another for that purpose but other opportunities should be reviewed. For example, purchasing services are provided by the City's Purchasing Department and the School Department's Purchasing Office. The Administration should study the advantages of consolidating the two offices. Also, the Public Works Department and the Transportation Department provide some services that seem to overlap. In light of the state cuts in local aid, now would be an appropriate time for the Administration to propose again that the Governor and Legislature authorize the Boston Licensing Board to be consolidated into the City's Office of Consumer Affairs & Licensing. The two offices should be combined as a city department to create greater efficiencies. The Boston Licensing Board is a vestige of past state oversight and is responsible for issuing and renewal of

liquor licenses in the City and holding hearings concerning any violations. The Board consists of three members appointed by the Governor from residents of Boston.

EMPLOYEE INVOLVEMENT – One of the keys to successful implementations of the recommendations cited is employee involvement. City employees should be challenged and rewarded for improving the efficiency of departmental operations. The employees should be engaged in helping establish a new way of operating Boston's city government. Without meaningful involvement by city employees, most of the recommendations will not succeed.

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CITY OF BOSTON
UNDESIGNATED FUND BALANCE

GAAP BASIS - figures in 000's

AS OF JUNE 30,	FUND BALANCE	VARIANCE OVER PRIOR YEAR	PERCENT	EXPENDITURES	BALANCE AS PERCENT OF EXPENDITURES
1988	\$71,442	\$70,610		\$1,205,435	5.9%
1989	72,757	1,315	1.8%	988,481	7.4%
1990	93,014	20,257	27.8%	1,011,850	9.2%
1991 *	62,522	(30,492)	(32.8%)	1,045,559	6.0%
1992	57,846	(4,676)	(7.5%)	1,013,551	5.7%
1993	64,150	6,304	10.9%	981,244	6.5%
1994	80,033	15,883	24.8%	1,022,943	7.8%
1995	89,636	9,603	12.0%	1,095,054	8.2%
1996 **	66,867	(22,769)	(25.4%)	1,274,754	5.2%
1997	67,184	317	0.5%	1,297,404	5.2%
1998	101,790	34,606	51.5%	1,345,774	7.6%
1999	126,499	24,709	24.3%	1,459,550	8.7%
2000	163,263	36,764	29.1%	1,536,258	10.6%
2001	182,011	18,748	11.5%	1,603,889	11.3%

* State Aid cuts

** 7-1-96 hospital merger took effect.

Source: City of Boston Comprehensive Annual Financial Reports

GENERAL FUND END-OF-MONTH CASH BALANCES
FISCAL YEARS 1997 - 2002

figures in 000's

	FY97	FY98	FY99	FY00	FY01	FY02
July	\$253,643	\$271,845	\$300,859	\$404,471	\$463,943	\$614,109
August	278,893	301,338	339,052	408,315	503,510	648,352
September	258,122	319,630	363,115	417,992	506,041	659,778
October	290,050	287,298	324,631	397,504	499,014	578,666
November	270,051	308,756	333,470	390,254	499,524	578,712
December	257,985	280,029	367,138	308,927	481,893	527,393
January	259,362	253,746	340,724	394,984	520,855	543,724
February	250,915	281,336	329,959	400,916	541,341	544,255
March	237,730	281,478	339,966	401,086	521,430	588,263
April	249,294	296,328	351,806	422,774	528,692	
May	288,696	333,999	389,258	433,286	532,683	
June	302,917	324,519	427,590	456,742	592,786	

Source: City of Boston Treasury Department

CITY OF BOSTON
GENERAL FUND REVENUE AND EXPENDITURE SUMMARY
FISCAL YEARS 1997 - 2002

figures in 000's

WHERE THE MONEY COMES FROM	FY97	FY98	FY99	FY00	FY01	BUDGET FY02	VARIANCE FY97-02	%CHANGE FY97-02	VARIANCE FY97-01	%CHANGE FY97-01
GROSS PROPERTY TAX	\$748,987	\$782,439	\$822,368	\$866,206	\$917,604	\$972,234	\$223,247	29.8%	\$168,616	22.5%
OVERLAY	(38,034)	(50,566)	(42,712)	(41,226)	(43,590)	(46,297)	(8,263)	21.7%	(5,556)	14.6%
NET PROPERTY TAX	710,953	731,872	779,656	824,980	874,013	925,937	214,984	30.2%	163,060	22.9%
STATE AID (1)	\$415,066	\$450,011	\$494,623	\$513,681	\$525,168	\$550,452	\$135,386	32.6%	\$110,102	26.5%
CITY & COUNTY	130,432	140,448	139,339	152,313	174,335	151,678	21,246	16.3%	43,903	33.7%
EXCISE TAXES/OTHER	117,588	121,184	130,718	130,452	153,375	135,940	18,352	15.6%	35,788	30.4%
NON-RECURRING REVENUE	7,111	2,706	5,088	2,431	2,890	7,549	438	6.2%	(4,221)	-59.4%
TOTAL REVENUE	\$1,381,150	\$1,446,222	\$1,549,425	\$1,623,857	\$1,729,781	\$1,771,556	\$390,406	28.3%	\$348,632	25.2%
CHANGE OVER PRIOR YEAR	-9.9%	4.7%	7.1%	4.8%	6.5%	2.4%				

WHERE THE MONEY GOES	FY97	FY98	FY99	FY00	FY01	BUDGET FY02	VARIANCE FY97-02	%CHANGE FY97-02	VARIANCE FY97-01	%CHANGE FY97-01
SCHOOLS (2)	\$433,042	\$460,132	\$493,574	\$525,538	\$556,688	\$573,475	\$140,434	32.4%	\$123,646	28.6%
OTHER CITY DEPARTMENTS	243,374	227,002	260,621	268,299	308,041	281,671	38,297	15.7%	64,667	26.6%
EMPLOYEE BENEFITS (3)	224,828	231,866	258,100	274,772	283,644	309,345	84,517	37.6%	58,816	26.2%
POLICE	167,660	187,167	194,218	200,756	214,286	219,907	52,246	31.2%	46,626	27.8%
FIRE	99,106	109,647	115,912	118,751	116,859	132,098	32,992	33.3%	17,752	17.9%
SUFFOLK COUNTY	8,077	8,687	7,864	5,854	6,530	4,837	(3,240)	-40.1%	(1,547)	-19.2%
TOTAL CITY/COUNTY/SCHOOLS	\$1,176,088	\$1,224,501	\$1,330,288	\$1,393,971	\$1,486,048	\$1,521,334	\$345,246	29.4%	\$309,960	26.4%
MANDATORY COSTS	\$141,468	\$147,616	\$157,889	\$163,472	\$172,967	\$186,325	\$44,857	31.7%	\$31,499	22.3%
PUBLIC HEALTH COMMISSION	\$60,890	\$66,678	\$53,503	\$58,213	\$62,141	\$63,897	\$3,007	4.9%	\$1,251	2.1%
TOTAL EXPENDITURES	\$1,378,446	\$1,438,794	\$1,541,680	\$1,615,656	\$1,721,156	\$1,771,556	\$393,110	28.5%	\$342,710	24.9%
CHANGE OVER PRIOR YEAR	-9.9%	4.4%	7.2%	4.8%	6.5%	2.9%				
SURPLUS	\$2,704	\$7,427	\$7,745	\$8,201	\$8,625	\$0				

(1) State Aid does not include \$12.0M in fiscal 2001 school transportation and tuition for state wards old that was received in July of fiscal 2002. The City chose to apply these funds in fiscal 2002.

(2) Expenditures from city appropriations only, not including benefits.

(3) Includes benefits for the School Department. Does not include benefits for the PHC, which are included in their annual departmental expenditures.

Source: City of Boston Auditing Department, Annual Financial Reports and City of Boston FY02 budget

APPENDIX D

CITY OF BOSTON SPENDING FOR EMPLOYEES FISCAL YEARS 1997 - 2001

figures in 000's

DEPARTMENT	FY97	FY98	FY99	FY00	FY01	VARIANCE FY97-01	% CHANGE FY97-01
SALARIES	\$644,652	\$677,091	\$735,988	\$763,503	\$842,383	\$197,731	30.7%
OVERTIME	\$32,509	\$31,464	\$35,287	\$40,493	\$43,824	\$11,314	34.8%
BENEFITS	\$224,828	\$231,866	\$258,100	\$274,772	\$283,644	\$58,816	26.2%
TOTAL SPENDING FOR EMPLOYEES	\$901,989	\$940,421	\$1,029,375	\$1,078,768	\$1,169,850	\$267,861	29.7%
CHANGE OVER PRIOR YEAR		\$38,431	\$88,954	\$49,393	\$91,083		
% CHANGE		4.3%	9.5%	4.8%	8.4%		

Source: City of Boston Auditing Department Financial Reports

**CITY OF BOSTON
PERSONNEL SUMMARY
FTE'S JANUARY 1995-02**

CITY FUNDED

DEPARTMENT	1/95	1/96	1/97	1/98	1/99	1/00	1/01	1/02	VARIANCE 01-02	VARIANCE 97-01	VARIANCE 95-01	VARIANCE 95-02
POLICE	2,660	2,823	2,969	3,003	3,025	3,005	2,958	2,964	6	(10)	298	304
FIRE	1,716	1,684	1,721	1,730	1,756	1,730	1,732	1,697	(35)	11	17	(18)
LIBRARY	537	543	529	529	560	541	559	575	16	30	21	37
PUBLIC WORKS	482	525	476	479	421	410	389	407	18	(87)	(93)	(75)
TRANSPORTATION	402	412	383	402	379	442	438	439	1	55	37	37
COMMUNITY CENTERS	277	340	364	387	379	384	370	375	5	7	94	98
OTHER CITY	1,715	1,786	1,720	1,690	1,826	1,831	1,844	1,837	(7)	124	129	122
SUB-TOTAL CITY	7,788	8,111	8,160	8,219	8,344	8,342	8,290	8,293	4	130	502	506
COUNTY (1)	51	49	56	48	56	0	0	0	0	(56)	(51)	(51)
SCHOOLS	7,048	7,437	7,512	7,704	8,052	8,235	8,437	8,509	72	926	1,390	1,461

SUB-TOTAL	14,886	15,597	15,728	15,970	16,451	16,576	16,727	16,803	76	999	1,841	1,916
CITY/COUNTY/SCHOOLS	77	710	131	243	481	125	151	76				
CHANGE OVER PRIOR YEAR												
HEALTH & HOSPITALS/PHC (2)	2,550	2,681	729	726	741	732	756	768	12	27	(1,764)	(1,782)
TOTAL CITY FUNDED	17,437	18,277	16,457	16,696	17,192	17,308	17,483	17,571	88	1,026	47	134
CHANGE OVER PRIOR YEAR	229	841	(1,821)	240	496	116	175	88				

EXTERNALLY FUNDED

DEPARTMENT	1/95	1/96	1/97	1/98	1/99	1/00	1/01	1/02	VARIANCE 01-02	VARIANCE 97-01	VARIANCE 95-01	VARIANCE 95-02
CITY/COUNTY	1,503	1,528	1,489	1,532	1,554	1,836	1,955	2,017	62	467	452	514
SCHOOLS	848	783	744	797	753	827	821	925	104	77	(27)	77
TOTAL EXTERNALLY FUNDED	2,351	2,311	2,233	2,328	2,307	2,663	2,777	2,942	166	544	425	591
CHANGE OVER PRIOR YEAR	229	(40)	(78)	96	(21)	356	114	166	52	192	(115)	(63)
GRAND TOTAL	19,788	20,588	18,690	19,025	19,499	19,971	20,260	20,513	253	1,570	472	725
CHANGE OVER PRIOR YEAR	302	800	(1,899)	335	475	471	289	460				

(1) Reflects the Commonwealth of Massachusetts's assumption of the Suffolk County Registry of Deeds budget.
 (2) Beginning in fiscal 1997, the Department of Health & Hospitals ceased to exist due to the merger of 8CH and 8U Hospital into the Private Boston Medical Center. As a result, in fiscal 1997, the City recorded a loss of FTEs. Starting in January 1997, numbers reflect employees of the Public Health Commission only.
 Source: City of Boston Personnel Statistics Reports and Boston Public Schools Position Control Report.

APPENDIX F

BOSTON PUBLIC SCHOOLS EXPENDITURES BY EXPENSE CATEGORIES FISCAL YEARS 1997 - 2002 figures in 000's

EXPENSE	FY97	FY98	FY99	FY00	FY01	BUDGET FY02	VARIANCE 97-01	PERCENT
SALARIES	\$321,014	\$343,977	\$369,264	\$393,702	\$419,773	\$429,634	\$98,759	30.8%
SUPPLIES	7,173	8,068	9,309	9,469	10,793	10,054	3,620	50.5%
PROPERTY SERVICES	26,517	26,780	26,956	30,363	32,797	32,035	6,280	23.7%
TRANSPORTATION	34,943	36,783	47,023	49,711	53,541	56,593	18,598	53.2%
EQUIPMENT	1,360	1,944	1,922	2,926	2,113	2,142	753	55.3%
PURCHASED SERVICES	41,116	41,298	38,092	37,920	36,561	41,496	(4,555)	-11.1%
MISCELLANEOUS	919	1,282	1,007	1,447	1,110	1,520	191	20.8%
TOTAL SALARIES	\$321,014	\$343,977	\$369,264	\$393,702	\$419,773	\$429,634	\$98,759	30.8%
PERCENT OF TOTAL	74.1%	74.8%	74.8%	74.9%	75.4%	74.9%		
TOTAL NON-SALARY	\$112,027	\$116,155	\$124,309	\$131,837	\$136,915	\$143,841	\$24,888	22.2%
PERCENT OF TOTAL	25.9%	25.2%	25.2%	25.1%	24.6%	25.1%		
GRAND TOTAL								
(NOT INCLUDING BENEFITS)	\$433,042	\$460,132	\$493,574	\$525,538	\$556,688	\$573,475	\$123,646	28.6%
VARIANCE	\$16,768	\$27,090	\$33,441	\$31,965	\$31,150	\$16,787		
PERCENT VARIANCE	4.0%	6.3%	7.3%	6.5%	5.9%	3.0%		
BENEFITS	\$42,570	\$47,040	\$49,799	\$53,643	\$55,237	\$66,254	\$12,667	29.8%
HEALTH & LIFE	27,087	28,618	30,737	32,842	34,932	42,484	7,845	29.0%
UNEMP. & MEDICARE	2,952	2,875	3,459	3,557	4,371	4,977	1,418	48.0%
WORKERS COMP	2,055	2,362	2,639	2,689	2,680	2,511	625	30.4%
INJURY	512	539	565	779	641	827	129	25.3%
PENSIONS	5,404	7,526	7,035	8,194	6,977	8,819	1,573	29.1%
BTU HEALTH & WELFARE	4,560	5,120	5,363	5,582	5,636	6,150	1,076	23.6%
GRAND TOTAL INCLUDING BENEFITS	\$475,612	\$507,172	\$543,372	\$579,181	\$611,925	\$639,729	\$136,313	28.7%

Source: Boston Public Schools budget

APPENDIX G

BOSTON PUBLIC SCHOOLS PROGRAM BUDGET FISCAL YEARS 1997 - 2002

figures in 000's

PROGRAM	FY97	FY98 (1)	FY99	FY00	FY01	FY02	VARIANCE 97-01	% CHANGE
INSTRUCTION	\$305,540	\$321,701	\$348,659	\$364,089	\$383,179	\$390,388	\$77,639	25.4%
REGULAR ED.	156,940	167,886	180,151	193,621	217,170	220,188	\$60,230	38.4%
VOCATIONAL ED.	4,637	4,202	4,619	4,886	4,432	3,917	(205)	-4.4%
SPECIAL ED	111,866	116,139	128,281	130,809	128,309	130,816	16,443	14.7%
BILINGUAL ED	31,447	32,840	34,945	34,097	32,602	34,909	1,156	3.7%
ADULT EDUCATION	343	317	318	334	342	277	(811)	-0.2%
SUMMER SESSION	308	317	345	343	324	281	16	5.0%
PUPIL SUPPORT	\$170,082	\$185,514	\$193,121	\$211,238	\$228,764	\$249,341	\$58,682	34.5%
STUDENT SERVICE	15,999	16,692	17,700	38,069	40,883	45,791	24,884	155.5%
SAFETY	2,857	3,419	3,395	3,378	3,667	3,466	810	28.3%
PHYSICAL PLANT	42,343	44,324	42,979	46,162	50,010	52,172	7,667	18.1%
TRANSPORTATION	39,220	41,424	44,412	52,820	56,729	59,120	17,509	44.6%
GEN. ADMIN. (4)	27,471	34,891	34,972	16,597	18,158	22,538	-9,314	-33.9%
EMPLOYEE BENEFITS	42,191	44,763	49,663	54,213	59,317	66,254	17,126	40.6%
TOTAL BPS BUDGET	\$475,622	\$507,215	\$541,779	\$575,327	\$611,943	\$639,729	\$136,321	28.7%

(1) Data prior to FY98 is not completely comparable due to adjustments made by the BPS to its chart of accounts.

Source: Boston Public Schools budget

APPENDIX H

CITY OF BOSTON
ANALYSIS OF MANDATORY EXPENDITURES
figures 000'S

	MANDATORY	VARIANCE	%	DEBT SERVICE	VARIANCE	%	ASSESSMENTS	VARIANCE	%	TOTAL CITY SPENDING	DEBT SERVICE AS A % OF TOTAL CITY SPENDING
FY97	\$141,468	\$1,540	1.1%	\$79,011	\$683	0.9%	\$62,457	\$857	1.4%	\$1,378,446	5.7%
FY98	147,616	6,148	4.3%	83,429	4,418	5.6%	64,187	1,730	2.8%	1,438,794	5.8%
FY99	157,889	10,273	7.0%	92,320	8,891	10.7%	65,569	1,382	2.2%	1,541,680	6.0%
FY00	163,472	5,583	3.5%	96,477	4,157	4.5%	66,995	1,426	2.2%	1,615,656	6.0%
FY01	172,967	9,495	5.8%	106,179	9,702	10.1%	66,788	-207	-0.3%	1,721,156	6.2%
FY02	186,325	13,358	7.7%	118,815	12,635	11.9%	67,511	723	1.1%	1,771,556	6.7%
AVG. ANNUAL INC. FY97-01		\$6,608	4.3%		\$5,570	6.3%		\$1,037	1.6%		
VARIANCE											
97-01	\$31,499	22.3%		\$27,168	34.4%		\$4,330	6.9%			

Source: City of Boston Auditing Financial Reports

APPENDIX I

CITY OF BOSTON GRANT FUND HISTORY

figures in 000's

	FY97	FY98	FY99	FY00	FY01	FY02 BUDGET	VARIANCE FY97-01	%	% of FY97 TOTAL	% of FY01 TOTAL
Neighborhood Dev.	\$67,722	\$87,707	\$97,840	\$58,469	\$69,422	\$73,200	\$1,700	2.5%	26.2%	19.5%
Schools	68,382	74,426	78,445	93,288	116,812	117,387	48,430	70.8%	26.5%	32.8%
Suffolk County	68,619	65,215	70,408	82,405	89,069	92,097	20,450	29.8%	26.6%	25.0%
Public Health	29,738	30,639	30,139	28,055	38,232	42,572	8,494	28.6%	11.5%	10.7%
Public Library	1,164	1,337	1,222	9,071	11,508	9,638	10,344	888.7%	0.5%	3.2%
Police	6,815	8,265	10,513	7,927	9,857	11,094	3,042	44.6%	2.6%	2.8%
Other	15,974	16,089	17,202	24,323	21,776	18,223	5,802	36.3%	6.2%	6.1%
Total	\$258,414	\$283,678	\$305,769	\$303,538	\$356,677	\$364,212	\$98,263	38.0%	100.0%	100.0%

Source: City of Boston Office of Budget Management

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Boston Municipal Research Bureau, Inc.

333 Washington Street, Suite 854

Boston, MA 02108

Phone: 617.277.1900

